Our plan in action.

A review of our financial plans and results.

Bank of Montreal 184th Annual Report 2001 Book Two

Bank of Montreal

Bank of Montreal Group of Companies

Founded in 1817, Bank of Montreal is Canada's first bank and one of the largest financial institutions in North America. We offer clients a broad range of financial services across Canada and in the United States through BMO Nesbitt Burns and our Chicago-based subsidiary, Harris Bank.

With average assets of $246 billion and more than 33,000 employees, the Bank has diversified activities concentrated in retail banking, wealth management, and corporate and investment banking.

The Bank of Montreal Group of Companies is made up of three client groups:

Personal and Commercial Client Group is committed to providing integrated, seamless, high-quality service to seven million personal and commercial customers across Canada and the United States. The group offers a full range of products and services through 16,500 highly skilled financial service providers in more than 1,100 Bank of Montreal and Harris Bank branches, as well as directly through bmo.com, harrisbank.com, BMO mbanx® Direct and a network of more than 2,200 automated banking machines.

Private Client Group is committed to helping clients accumulate, protect and grow their financial assets. Operating under The Harris®[1] in the United States and BMO Private Client Group in Canada, the group, through more than 5,100 employees, offers a full suite of wealth management products and services. The group has total assets under management and administration, including term deposits, of $237 billion.

Investment Banking Group, operating under the BMO Nesbitt Burns®[2] and Harris Nesbitt™[1] brands, offers corporate, institutional and government clients complete financial services, including advisory, capital-raising, investment and operating services. Supported by top-ranked research, BMO Nesbitt Burns is a leader in mergers and acquisitions advisory, debt and equity underwriting, institutional equity, securitization and trade finance.

Table of Contents

Management's Discussion and Analysis of Operations and Financial Condition

Overview of the Structure of the MD&A

Management's Discussion and Analysis of Operations and Financial Condition (MD&A) comments on the Bank's operations for the years ended October 31, 2001 and 2000. The MD&A is presented in ten sections:

Financial Performance and Condition at a Glance provides high-level commentary and graphics related to the Bank's seven primary financial performance and four primary financial condition measures. The section also provides commentary on those measures relative to the results of both our Canadian and North American peer groups. More detailed discussion of the measures is provided in certain of the other sections of the MD&A, as indicated below.

Objectives, Strategies, Measures and Targets provides an overview of the relationship between the most important measures used by management to assess the Bank's financial performance and condition, its targets for 2001 and 2002, and its strategies and objectives.

Value Measures reviews the Bank's financial performance for 2001 and 2000 in terms of four of our primary financial performance measures: five-year total shareholder return, diluted earnings per share growth, return on common shareholders' equity and net economic profit growth. Primary measures are detailed on page 2.

Financial Statement Analysis provides an analysis of our financial performance for 2001 and 2000 by focusing on the statement of income and the balance sheet that are included within the consolidated financial statements, which are presented starting on page 57 of the Annual Report. The section also includes an analysis of our performance relative to another two of our primary performance measures: revenue growth and the expense-to-revenue ratio.

Caution Regarding Forward-Looking Statements

Management's Discussion and Analysis for 2001 includes forward-looking statements, which are made pursuant to the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, comments with respect to our objectives, targets, strategies, financial condition, the results of our operations and our businesses, our outlook for our businesses and for the Canadian and U.S. economies, and risk management.

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, targets, expectations, estimates and intentions expressed in such forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by the following factors: fluctuations in interest rates and currency values; regulatory developments; statutory changes; the effects of competition in the geographic and business areas in which we operate, including continued pricing pressure on loan and deposit products; and changes in political and economic conditions including, among other things, inflation and technological changes. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider the foregoing factors as well as other uncertainties and potential events. The Bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Bank.

Enterprise-Wide Strategic Management provides an overview of our bank-wide strategies and our enterprise-wide strategic management function.

Enterprise-Wide Risk Management provides an overview of risk management in the Bank and a discussion of our objectives and approach to managing credit, market, liquidity and operational risks. Also included is an analysis of our performance on the provision for credit losses as a percentage of average loans and acceptances and on two of our primary condition measures: the ratio of gross impaired loans and acceptances to equity and allowance for credit losses, and the ratio of cash and securities-to-total assets.

Enterprise-Wide Capital Management provides an overview of our objective, strategy and approach to capital management. It also includes an analysis of changes in the Tier 1 Capital Ratio, another of our primary condition measures.

Review of Operating Groups Performance provides an overview of the Bank's client groups. The section reviews each group's objectives and accomplishments for 2001 and objectives for 2002. It also provides insight into operations of the lines of business within each group and an analysis of the 2001 and 2000 financial results by group. A separate analysis of Harris Bank, whose results are included within each of the four groups, is also provided.

Economic and Financial Services Developments reviews Canadian and U.S. economic and financial services developments in 2001 and our economic and financial services outlook for 2002.

Supplemental Information groups many useful financial tables into one section of the Annual Report. The tables may be referred to in conjunction with the other sections of the MD&A or reviewed separately.

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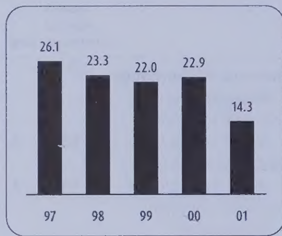
Financial Performance and Condition at a Glance

Five-Year TSR (%)

Further details are provided on page 5.

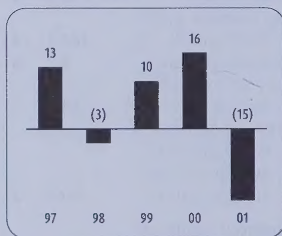


Shareholder Value

- The average annual total shareholder return (TSR) for the five years ended October 31, 2001 was 14.3%, compared with 22.9% for the five years ended October 31, 2000. The decline related to the inclusion of this year's low one-year TSR, which replaced the 1996 one-year TSR of 42% in the calculation.
- The annual TSR in 2001 was negative 1.2%, down from 29% in 2000. The annual TSR compared favourably with the TSE 300 Total Return Index, which declined 27% in 2001.
- The share price decreased $1.39 from a year ago to $33.86 at October 31, 2001, while dividends paid increased 10% to $1.09 per share in 2001.

Diluted EPS Growth excluding non-recurring items (%)

Further details are provided on page 6.

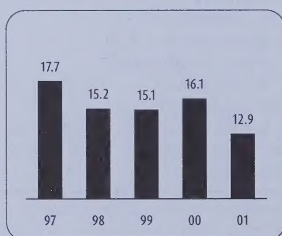


Diluted Earnings per Share (EPS) Growth

- Excluding non-recurring items, EPS declined 15% to $2.48 per share. The effects of business volume growth were more than offset by increased expenses and a significantly higher provision for credit losses in the weaker economic environment.
- The decline in EPS failed to match our target growth of 10% to 15% for 2001, which was established at the end of fiscal 2000.
- A financial performance objective is to grow cash EPS by a minimum of 10% per year, over time. Excluding non-recurring items, our average annual cash EPS growth for the last five years was 5%.

ROE excluding non-recurring items (%)

Further details are provided on page 7.



Profitability

- Excluding non-recurring items, return on equity (ROE) was 12.9% in 2001, down from 16.1% in 2000.
- The decline in ROE failed to match our target of growing ROE to 17% to 17.5% in 2001. The target was established at the end of fiscal 2000.
- A financial performance objective is to grow cash ROE to 19% to 20% over time.
- Reported ROE of 13.8% was the lowest in 12 years.
- Bank of Montreal is the only major North American bank with a reported ROE of more than 13% for each of the last 12 years.

Net Economic Profit Growth (%)

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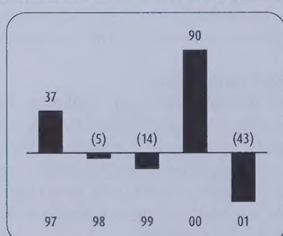
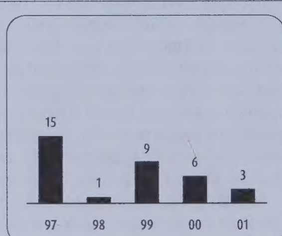


Net Economic Profit Growth

- Net economic profit (NEP) declined 43% to $433 million from $763 million in 2000. The decline reflected lower earnings and an increase in average common shareholders' equity, partially offset by the effects of a reduction in the rate charged for capital.

Revenue Growth excluding non-recurring items (%)

Further details are provided on page 8.

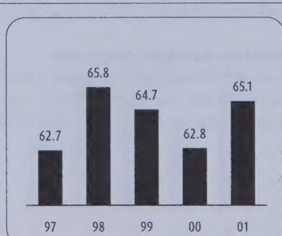


Revenue Growth

- Excluding non-recurring items, revenue increased 3% in 2001, down from 6% growth last year.
- Net interest earnings increased but other income decreased from the prior year.
- Revenue growth was below our target growth of 7% to 9%, excluding non-recurring items.

Expense-to-Revenue Ratio excluding non-recurring items (%)

Further details are provided on page 11.



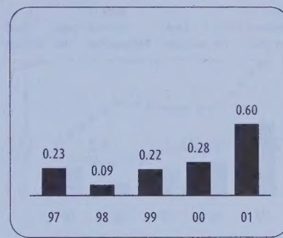
Expense-to-Revenue Ratio

- Excluding non-recurring items, the expense-to-revenue ratio was 65.1% in 2001, compared with 62.8% in 2000. Expenses, which exclude the amortization of goodwill, increased 7% from fiscal 2000, compared with 3% growth last year. Expense growth was driven by increased business volumes and strategic initiatives spending.
- Expense growth was greater than revenue growth and the Bank was not successful in achieving its target of maintaining the efficiency ratio at the same level as in 2000.

Financial Performance and Condition at a Glance

Credit Risk

- Excluding non-recurring items, the provision for credit losses as a percentage of average net loans and acceptances was 0.60% for 2001, compared with 0.28% for 2000.
- The provision for 2001 jumped significantly in the fourth quarter as a result of the weaker economic conditions and credit environment.
- The Bank's results also reflected a non-recurring $100 million increase in the general provision for credit losses.

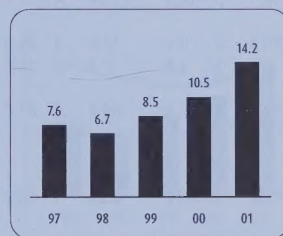


Provision for Credit Losses as a % of Average Loans and Acceptances

Further details are provided on page 18.

Impaired Loans

- Gross impaired loans and acceptances amounted to 14.2% of equity and allowance for credit losses at October 31, 2001, compared with 10.5% at the end of 2000.
- The increase was attributable to a higher rate of new impaired loan formations in the weaker economic environment and the share repurchase program.
- The increase continued an adverse trend, but the level of impaired loans remains within acceptable parameters given the economic conditions. Net impaired loans were $65 million, compared with negative $96 million in 2000.

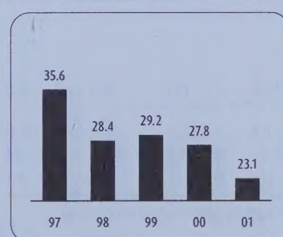


Gross Impaired Loans and Acceptances as a % of Equity and Allowance for Credit Losses

Further details are provided on page 19.

Cash and Securities-to-Total Assets

- The liquidity ratio decreased to 23.1% at October 31, 2001 from 27.8% last year.
- The decrease was the result of declines in trading and investment securities.
- Liquidity remains strong, supported by broad diversification of deposits and stability in core deposits.
- The liquidity ratio in 2002 is expected to approximate the ratio at the end of 2001.
- The ratio of core deposits-to-total deposits increased 3.2 percentage points.

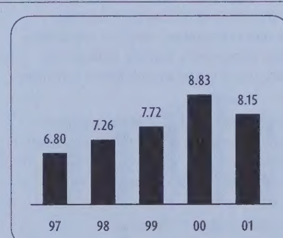


Cash and Securities-to-Total Assets (%)

Further details are provided on page 22.

Capital Adequacy

- The Tier 1 Capital Ratio was 8.15% at October 31, 2001, compared with 8.83% last year. The Total Capital Ratio was 12.12% in 2001, compared with 11.97% in 2000.
- The Tier 1 Capital Ratio remains above our minimum target level of 8%.
- The lower ratio reflects the strengthening of our provision for credit losses, the effects of our common share repurchase program and a modest increase in risk-weighted assets.

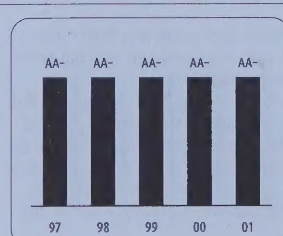


Tier 1 Capital Ratio (%)

Further details are provided on page 24.

Credit Rating

- The credit rating represents a composite of Moody's®[3] and Standard & Poor's®[5] debt ratings.
- The composite credit rating remained unchanged at AA–. However, following the Bank's announcement of higher provisions for credit losses and write-downs of investments in the fourth quarter, Standard and Poor's announced that it had placed the ratings of the Bank on "CreditWatch with negative implications". This is discussed further on page 24.



Credit Rating

Further details are provided on page 24.

Canadian Peer Group

	2001			2000			Five-Year Average		
	Bank of Montreal Performance	Rank	Six Bank Average*	Bank of Montreal Performance	Rank	Six Bank Average*	Bank of Montreal Performance	Rank	Six Bank Average*
Financial Performance Measures (%) (a)									
Five-year total shareholder return (TSR)	**14.3**	**6**	**17.7**	22.9	5	27.0	14.3	6	17.7
Diluted earnings per share (EPS) growth	**(14.8)**	**6**	**(2.0)**	15.9	3	14.3	4.3	6	8.2
Return on common shareholders' equity (ROE)	**12.9**	**5**	**14.2**	16.1	4	16.2	15.4	4	15.7
Net economic profit (NEP) growth	**(43.3)**	**6**	**(17.1)**	90.0	3	14.0	13.0	6	24.3
Revenue growth	**3.2**	**5**	**8.8**	6.1	6	16.6	7.0	6	12.1
Expense-to-revenue ratio (b)	**65.8**	**3**	**67.3**	63.5	3	66.4	64.9	4	65.8
Provision for credit losses as a % of average net loans and acceptances	**0.60**	**3**	**0.61**	0.28	1	0.39	0.29	2	0.39
Financial Condition Measures (%) (a)									
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**14.2**	**4**	**14.0**	10.5	3	11.8	9.5	2	12.7
Cash and securities-to-total assets	**23.1**	**6**	**28.7**	27.8	4	28.4	28.8	2	27.2
Tier 1 Capital Ratio	**8.15**	**6**	**8.78**	8.83	1	8.40	7.75	6	7.96
Credit rating	**AA–**	**2**	**AA–**	AA–	2	AA–	AA–	2	AA–

*Averages were based on the performance of six banks: Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank Financial Group, Scotiabank and TD Bank Financial Group.

(a) Results are as at or for the periods ended October 31, as appropriate. All financial performance measures, except five-year TSR and net economic profit, exclude non-recurring items.

(b) Non-interest expense includes amortization of goodwill and other intangibles for all banks.

2001 Comparison

Our performance in 2001 relative to the Canadian peer group was better than average on two of the seven financial performance measures, which was a deterioration from our better than average performance on four of the seven measures in 2000.

Our TSR dropped to the number 6 position and below average. The TSR declined for all the banks, reflecting the deteriorating economic conditions at the end of 2001 and the removal from the calculation of the strong increases in share prices achieved by all the banks in 1996.

The Bank's expense-to-revenue ratio and provision for credit losses were better than average, although higher provisions this year caused the Bank to fall from its number 1 ranking of last year. Other measures were weaker than average due to low revenue growth relative to expense growth and due to the higher provisions for credit losses. Our share repurchase program reduced both shares outstanding and average common equity and should have a positive future impact on NEP growth, EPS growth and return on equity. Acquisitions by the other banks improved their revenue growth but negatively affected their expense growth, which resulted in the Bank having a better than average expense-to-revenue ratio.

Two of our four financial condition measures were average, impaired loans and credit rating. We dropped to below average on the Tier 1 Capital Ratio, due primarily to the common share repurchase program, and remained below average on the cash and securities measure due to lower holdings in securities.

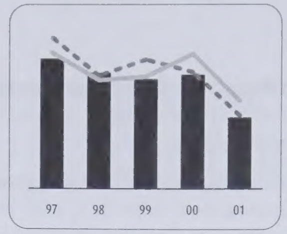
Five-Year Average Comparison

Our performance relative to the Canadian peer group was better than average on two of the seven performance measures. Our performance was average or better than average on three of the four condition measures.

Relative Financial Performance and Condition

Five-Year Total Shareholder Return (%)

- The average annual TSR of 14.3% was below the Canadian peer group average of 17.7% and the North American peer group average of 14.7%. The Bank's annual TSR in fiscal 2001 was the fifth best of Canada's major banks, reflecting a fourth-quarter decline.

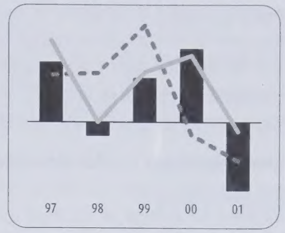


Shareholder Value

- The average annual total shareholder return (TSR) for the five years ended October 31, 2001 was 14.3%, compared with 22.9% for the five years ended October 31, 2000. The decline related to the inclusion of this year's low one-year TSR, which replaced the 1996 one-year TSR of 42% in the calculation.
- The annual TSR in 2001 was negative 1.2%, down from 29% in 2000. The annual TSR compared favourably with the TSE 300 Total Return Index, which declined 27% in 2001.
- The share price decreased $1.39 from a year ago to $33.86 at October 31, 2001, while dividends paid increased 10% to $1.09 per share in 2001.

Diluted Earnings per Share (EPS) Growth (%)

- Excluding non-recurring items, the Bank's EPS growth of negative 15% in 2001 was below the Canadian peer group average of negative 2% and the North American peer group average of negative 8%.

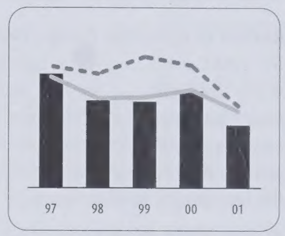


Diluted Earnings per Share (EPS) Growth

- Excluding non-recurring items, EPS declined 15% to $2.48 per share. The effects of business volume growth were more than offset by increased expenses and a significantly higher provision for credit losses in the weaker economic environment.
- The decline in EPS failed to match our target growth of 10% to 15% for 2001, which was established at the end of fiscal 2000.
- A financial performance objective is to grow cash EPS by a minimum of 10% per year, over time. Excluding non-recurring items, our average annual cash EPS growth for the last five years was 5%.

Return on Common Shareholders' Equity (%)

- Excluding non-recurring items, ROE of 12.9% in 2001 was below the Canadian and North American peer group averages of 14.2% and 14.7%, respectively.

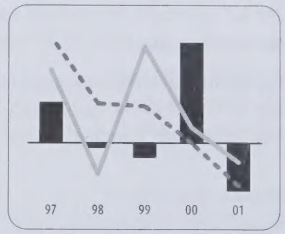


Profitability

- Excluding non-recurring items, return on equity (ROE) was 12.9% in 2001, down from 16.1% in 2000.
- The decline in ROE failed to match our target of growing ROE to 17% to 17.5% in 2001. The target was established at the end of fiscal 2000.
- A financial performance objective is to grow cash ROE to 19% to 20% over time.
- Reported ROE of 13.8% was the lowest in 12 years.
- Bank of Montreal is the only major North American bank with a reported ROE of more than 13% for each of the last 12 years.

Net Economic Profit Growth (%)

- Our net economic profit growth of negative 43% in 2001 was weaker than the Canadian and North American peer group averages of negative 17% and negative 38%, respectively.

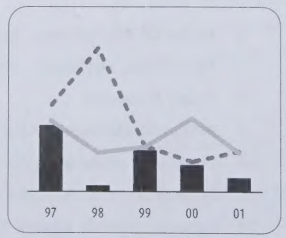


Net Economic Profit Growth

- Net economic profit (NEP) declined 43% to $433 million from $763 million in 2000. The decline reflected lower earnings and an increase in average common shareholders' equity, partially offset by the effects of a reduction in the rate charged for capital.

Revenue Growth (%)

- Our revenue growth of 3% in 2001, excluding non-recurring items, was below the Canadian and North American peer group averages of 9%.

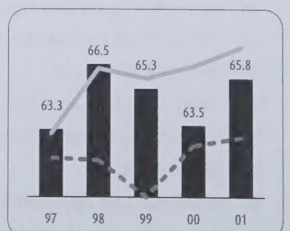


Revenue Growth

- Excluding non-recurring items, revenue increased 3% in 2001, down from 6% growth last year.
- Net interest earnings increased but other income decreased from the prior year.
- Revenue growth was below our target growth of 7% to 9%, excluding non-recurring items.

Expense-to-Revenue Ratio (%)

- Due to the absence of certain peer group data, expenses are adjusted to include the amortization of goodwill to determine an adjusted expense-to-revenue ratio for peer group comparisons. On this basis, excluding non-recurring items, our expense-to-revenue ratio was 65.8% and was better than the Canadian peer group average of 67.3% but worse than the North American peer group average of 62.9%.



Expense-to-Revenue Ratio

- Excluding non-recurring items, the expense-to-revenue ratio was 65.1% in 2001, compared with 62.8% in 2000. Expenses, which exclude the amortization of goodwill, increased 7% from fiscal 2000, compared with 3% growth last year. Expense growth was driven by increased business volumes and strategic initiatives spending.
- Expense growth was greater than revenue growth and the Bank was not successful in achieving its target of maintaining the efficiency ratio at the same level as in 2000.

Bank of Montreal
Canadian Peer Group Average
North American Peer Group Average

Financial Performance and Condition at a Glance

Credit Risk

- Excluding non-recurring items, the provision for credit losses as a percentage of average net loans and acceptances was 0.60% for 2001, compared with 0.28% for 2000.
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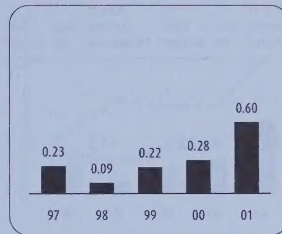
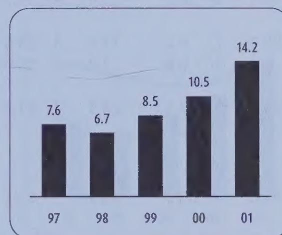


Provision for Credit Losses as a % of Average Loans and Acceptances

Further details are provided on page 18.

Impaired Loans

- Gross impaired loans and acceptances amounted to 14.2% of equity and allowance for credit losses at October 31, 2001, compared with 10.5% at the end of 2000.
- The increase was attributable to a higher rate of new impaired loan formations in the weaker economic environment and the share repurchase program.
- The increase continued an adverse trend, but the level of impaired loans remains within acceptable parameters given the economic conditions. Net impaired loans were $65 million, compared with negative $96 million in 2000.

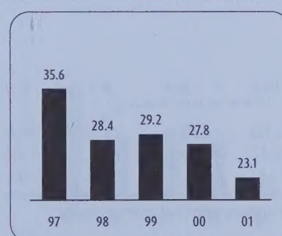


Gross Impaired Loans and Acceptances as a % of Equity and Allowance for Credit Losses

Further details are provided on page 19.

Cash and Securities-to-Total Assets

- The liquidity ratio decreased to 23.1% at October 31, 2001 from 27.8% last year.
- The decrease was the result of declines in trading and investment securities.
- Liquidity remains strong, supported by broad diversification of deposits and stability in core deposits.
- The liquidity ratio in 2002 is expected to approximate the ratio at the end of 2001.
- The ratio of core deposits-to-total deposits increased 3.2 percentage points.



Cash and Securities-to-Total Assets (%)

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Capital Adequacy

- The Tier 1 Capital Ratio was 8.15% at October 31, 2001, compared with 8.83% last year. The Total Capital Ratio was 12.12% in 2001, compared with 11.97% in 2000.
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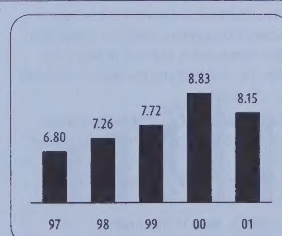

Tier 1 Capital Ratio (%)

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Credit Rating

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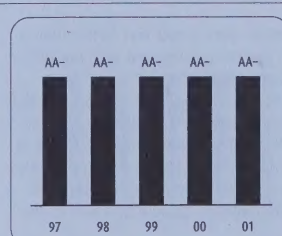


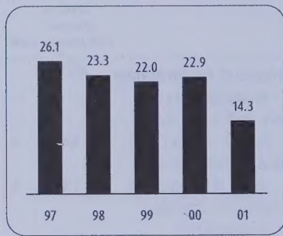
Credit Rating

Further details are provided on page 24.

Financial Performance and Condition at a Glance

Five-Year TSR (%)

Further details are provided on page 5.

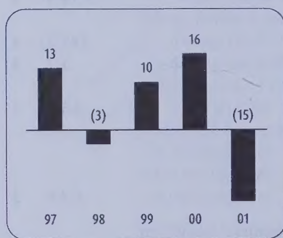


Shareholder Value

- The average annual total shareholder return (TSR) for the five years ended October 31, 2001 was 14.3%, compared with 22.9% for the five years ended October 31, 2000. The decline related to the inclusion of this year's low one-year TSR, which replaced the 1996 one-year TSR of 42% in the calculation.
- The annual TSR in 2001 was negative 1.2%, down from 29% in 2000. The annual TSR compared favourably with the TSE 300 Total Return Index, which declined 27% in 2001.
- The share price decreased $1.39 from a year ago to $33.86 at October 31, 2001, while dividends paid increased 10% to $1.09 per share in 2001.

Diluted EPS Growth excluding non-recurring items (%)

Further details are provided on page 6.

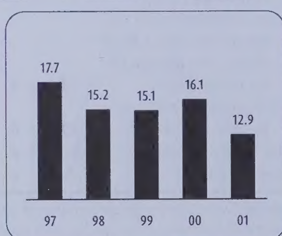


Diluted Earnings per Share (EPS) Growth

- Excluding non-recurring items, EPS declined 15% to $2.48 per share. The effects of business volume growth were more than offset by increased expenses and a significantly higher provision for credit losses in the weaker economic environment.
- The decline in EPS failed to match our target growth of 10% to 15% for 2001, which was established at the end of fiscal 2000.
- A financial performance objective is to grow cash EPS by a minimum of 10% per year, over time. Excluding non-recurring items, our average annual cash EPS growth for the last five years was 5%.

ROE excluding non-recurring items (%)

Further details are provided on page 7.

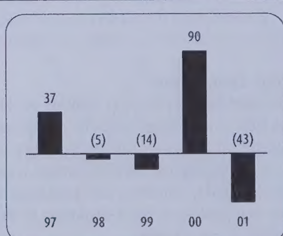


Profitability

- Excluding non-recurring items, return on equity (ROE) was 12.9% in 2001, down from 16.1% in 2000.
- The decline in ROE failed to match our target of growing ROE to 17% to 17.5% in 2001. The target was established at the end of fiscal 2000.
- A financial performance objective is to grow cash ROE to 19% to 20% over time.
- Reported ROE of 13.8% was the lowest in 12 years.
- Bank of Montreal is the only major North American bank with a reported ROE of more than 13% for each of the last 12 years.

Net Economic Profit Growth (%)

Further details are provided on page 7.

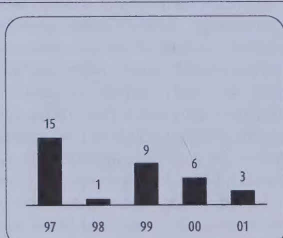


Net Economic Profit Growth

- Net economic profit (NEP) declined 43% to $433 million from $763 million in 2000. The decline reflected lower earnings and an increase in average common shareholders' equity, partially offset by the effects of a reduction in the rate charged for capital.

Revenue Growth excluding non-recurring items (%)

Further details are provided on page 8.

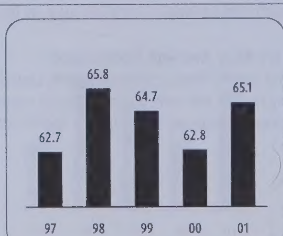


Revenue Growth

- Excluding non-recurring items, revenue increased 3% in 2001, down from 6% growth last year.
- Net interest earnings increased but other income decreased from the prior year.
- Revenue growth was below our target growth of 7% to 9%, excluding non-recurring items.

Expense-to-Revenue Ratio excluding non-recurring items (%)

Further details are provided on page 11.



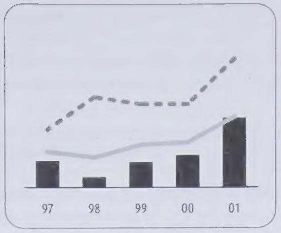
Expense-to-Revenue Ratio

- Excluding non-recurring items, the expense-to-revenue ratio was 65.1% in 2001, compared with 62.8% in 2000. Expenses, which exclude the amortization of goodwill, increased 7% from fiscal 2000, compared with 3% growth last year. Expense growth was driven by increased business volumes and strategic initiatives spending.
- Expense growth was greater than revenue growth and the Bank was not successful in achieving its target of maintaining the efficiency ratio at the same level as in 2000.

Relative Financial Performance and Condition

Credit Risk

- Excluding non-recurring items, the provision for credit losses as a percentage of average net loans and acceptances was 0.60% for 2001, compared with 0.28% for 2000.
- The provision for 2001 jumped significantly in the fourth quarter as a result of the weaker economic conditions and credit environment.
- The Bank's results also reflected a non-recurring $100 million increase in the general provision for credit losses.

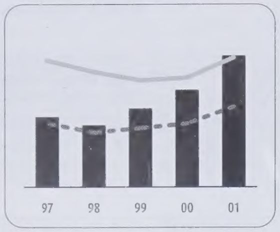


Provision for Credit Losses as a % of Average Loans and Acceptances

- Our performance of 0.60% was better than the Canadian and North American peer group averages of 0.61% and 1.11%, respectively.

Impaired Loans

- Gross impaired loans and acceptances amounted to 14.2% of equity and allowance for credit losses at October 31, 2001, compared with 10.5% at the end of 2000.
- The increase was attributable to a higher rate of new impaired loan formations in the weaker economic environment and the share repurchase program.
- The increase continued an adverse trend, but the level of impaired loans remains within acceptable parameters given the economic conditions. Net impaired loans were $65 million, compared with negative $96 million in 2000.

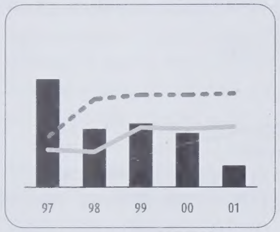


Gross Impaired Loans and Acceptances as a % of Equity and Allowance for Credit Losses

- Our performance of 14.2% was in line with the Canadian peer group average of 14.0%, but worse than the North American peer group average of 8.7%.

Cash and Securities-to-Total Assets

- The liquidity ratio decreased to 23.1% at October 31, 2001 from 27.8% last year.
- The decrease was the result of declines in trading and investment securities.
- Liquidity remains strong, supported by broad diversification of deposits and stability in core deposits.
- The liquidity ratio in 2002 is expected to approximate the ratio at the end of 2001.
- The ratio of core deposits-to-total deposits increased 3.2 percentage points.

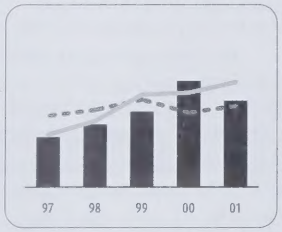


Cash and Securities-to-Total Assets (%)

- Our liquidity ratio of 23.1% was below the Canadian and North American peer group averages of 28.7% and 33.5%, respectively.

Capital Adequacy

- The Tier 1 Capital Ratio was 8.15% at October 31, 2001, compared with 8.83% last year. The Total Capital Ratio was 12.12% in 2001, compared with 11.97% in 2000.
- The Tier 1 Capital Ratio remains above our minimum target level of 8%.
- The lower ratio reflects the strengthening of our provision for credit losses, the effects of our common share repurchase program and a modest increase in risk-weighted assets.

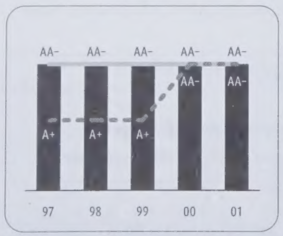


Tier 1 Capital Ratio (%)

- Our Tier 1 Capital Ratio of 8.15% was below the Canadian peer group average of 8.78%.
- On a U.S. basis, our Tier 1 Capital Ratio of 7.87% was below the North American peer group average of 7.92%.

Credit Rating

- The credit rating represents a composite of Moody's®3 and Standard & Poor's®5 debt ratings.
- The composite credit rating remained unchanged at AA–. However, following the Bank's announcement of higher provisions for credit losses and write-downs of investments in the fourth quarter, Standard and Poor's announced that it had placed the ratings of the Bank on "CreditWatch with negative implications". This is discussed further on page 24.



Credit Rating

- Our credit rating was comparable with both the Canadian and North American peer groups.

Bank of Montreal
Canadian Peer Group Average
North American Peer Group Average

North American Peer Group

	2001			2000			Five-Year Average		
	Bank of Montreal Performance	Quartile	17 Bank Average*	Bank of Montreal Performance	Quartile	17 Bank Average*	Bank of Montreal Performance	Quartile	17 Bank Average*
Financial Performance Measures (%) (a)									
Five-year total shareholder return (TSR)	**14.3**	**3**	**14.7**	22.9	2	23.4	14.3	3	14.7
Diluted earnings per share (EPS) growth	**(14.8)**	**4**	**(8.4)**	15.9	2	(2.7)	4.3	3	6.1
Return on common shareholders' equity (ROE)	**12.9**	**3**	**14.7**	16.1	3	18.5	15.4	4	17.7
Net economic profit (NEP) growth	**(43.3)**	**3**	**(38.0)**	90.0	2	0.2	13.0	4	25.3
Revenue growth	**3.2**	**3**	**9.1**	6.1	3	6.8	7.0	4	15.6
Expense-to-revenue ratio (b)	**65.8**	**3**	**62.9**	63.5	3	62.5	64.9	4	61.8
Provision for credit losses as a % of average net loans and acceptances	**0.60**	**2**	**1.11**	0.28	1	0.72	0.29	1	0.77
Financial Condition Measures (%) (a)									
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**14.2**	**4**	**8.7**	10.5	4	6.9	9.5	4	6.9
Cash and securities-to-total assets	**23.1**	**4**	**33.5**	27.8	2	33.3	28.8	2	32.0
Tier 1 Capital Ratio (c)	**7.87**	**2**	**7.92**	8.47	1	7.68	7.41	3	7.82
Credit rating	**AA–**	**1**	**AA–**	AA–	1	AA–	AA–	1	A+

*The North American peer group consists of those banks in North America which had common equity of at least 75% of Bank of Montreal's.

Averages were based on the performance of the 17 largest banks, determined with reference to their 2000 common shareholders' equity: Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank Financial Group, Scotiabank, TD Bank Financial Group, Bank of America Corporation, Bank One Corporation, Citigroup Inc., FleetBoston Financial Corporation, J.P. Morgan Chase Incorporated, KeyCorp, National City Corporation, The PNC Financial Services Group, Inc., SunTrust Banks, Inc., U.S. Bancorp, Wachovia Corporation, and Wells Fargo & Company.

(a) Results are as at or for the periods ended October 31 for Canadian banks and as at or for the periods ended September 30 for U.S. banks, as appropriate. Non-recurring items are excluded for all financial performance measurements except five-year TSR and NEP growth.
(b) Amortization of goodwill and other intangibles is included in non-interest expense for all banks.
(c) U.S. basis.

Ranking: from 1 to 4 – Quartile 1; 5 to 8 – Quartile 2; 9 to 12 – Quartile 3; 13 to 17 – Quartile 4.

2001 Comparison

Our performance in 2001 relative to the North American peer group was better than average on one of the seven financial performance measures, compared with our better than average performance on three of the seven measures in 2000.

Our TSR declined to third quartile but was close to the average. The average for the group has declined, due primarily to the deteriorating economic conditions at the end of 2001 in both Canada and the United States and the removal from the calculation of strong increases in share prices in 1996. The provision for credit losses remained better than average but provisions were higher than last year. Other measures deteriorated from last year due to low revenue growth relative to expense growth and due to the higher provisions for credit losses.

Our credit rating continued to be average and our Tier 1 Capital Ratio was in line with the average. Our impaired loans and cash and securities ratings continued to be weaker than average.

Five-Year Average Comparison

Our performance relative to the North American peer group was better than average on one of the seven performance measures. Our performance was better than average on one of the four condition measures.

Objectives, Strategies, Measures and Targets

The following diagram illustrates the relationship between objectives, strategies, measures and targets at Bank of Montreal.

Governing Objective

To maximize the total return to Bank of Montreal shareholders and generate, over time, first-quartile total shareholder returns relative to our Canadian and North American peer groups.

Strategic Objective

Our success in achieving our governing objective depends on attaining our strategic objective: to be a leading transnational bank by continuing to invest in our core Canadian franchise, expanding selectively and substantially in the United States and building on our long-standing capabilities.
Strategic milestones are set out on page 15.

Financial Performance and Condition Objectives

Our performance objectives are to grow cash EPS by a minimum of 10% per year over time, and to increase cash ROE to 19% to 20% over time. Our condition objective is to maintain a strong regulatory capital position consistent with our peers.

All targets exclude the effects of non-recurring items.

2001 Financial Performance Targets	2001 Financial Performance
• To achieve 10.0% to 15.0% EPS growth • To increase ROE to between 17.0% and 17.5%	• EPS growth of negative 14.8% • ROE of 12.9%
Supporting Targets • Revenue growth of 7.0% to 9.0% • An expense-to-revenue ratio consistent with the 2000 ratio of 62.8% • A provision for credit losses of $400 million • A tax rate (taxable equivalent basis) averaging approximately 37.0%	• Revenue growth of 3% • An expense-to-revenue ratio of 65.1% • A provision for credit losses of $880 million • A tax rate (taxable equivalent basis) of 31.6%
2001 Financial Condition Targets	**2001 Financial Condition**
• To maintain a Tier 1 Capital Ratio of at least 8.0% • To achieve a cash and securities-to-total assets ratio of approximately 27.8%	• Tier 1 Capital Ratio of 8.15% • Cash and securities-to-total assets ratio of 23.1%
Supporting Target • Modest growth from risk-weighted assets of $134 billion	• Risk-weighted assets grew $1.4 billion from 2000

2002 Financial Performance Targets	2002 Financial Condition Target
• To achieve 8% to 12% cash EPS growth • To increase cash ROE to between 14% and 15% • A provision for credit losses in the range of 40 to 50 basis points of average net loans and acceptances (including securities purchased under resale agreements)	• To maintain a Tier 1 Capital Ratio of at least 8.0%

Targets are set in the context of economic conditions prevailing at the time.

Financial Performance Measures, Objectives and Targets

The most significant of our financial performance measures are referred to as "primary measures", while the less significant, which tend to influence the primary measures, are referred to as "secondary measures". The most fundamental of the Bank's primary measures is the five-year total shareholder return, since this measure, when compared to peer group performance, assesses our success in achieving our governing objective.

We establish annual targets for certain of the performance and condition measures. We also establish financial performance objectives, which represent longer-term average annual minimum levels of achievement. If these financial performance objectives are met, the Bank should achieve its governing objective of first-quartile total shareholder returns.

Because financial targets represent the annual quantification of financial objectives, they are affected by variable economic conditions and may be higher or lower than the financial objectives in any particular year.

Our operating philosophy is to grow revenues at a higher rate than expenses, over time, and at a rate above economic growth rates. We strive for efficiencies in expense management and a balance between current profitability and the need to invest for future growth. When possible, expense efficiencies partially or totally fund the costs of investing for the future. However, the relationship between revenues and expenses in any year is affected by economic conditions.

Much of the analysis of performance in the MD&A is framed in the context of the primary and secondary measures discussed above, which are used by management in assessing performance. The measures are considered most relevant when they exclude the effects of non-recurring items, which are defined on page 6 and listed on page 55. Financial performance and financial condition targets outlined above are stated on that basis.

Highlights

- Bank of Montreal shareholders have received a five-year average annual total return of 14.3%.
- Diluted cash earnings per share (EPS) decreased 16% to $2.86 in 2001.
- Excluding non-recurring items, cash EPS decreased 12% to $2.68.
- Net income declined 21% from the prior year to $1,471 million, largely due to a significant increase in charges in the fourth quarter. Bank of Montreal had reported increased earnings and higher EPS for 11 consecutive years prior to 2001.
- Notwithstanding the weakened economy, the Bank achieved a 13.9% cash return on common shareholders' equity (ROE) in 2001, compared with 16.9% in 2000, excluding non-recurring items.
- The Bank's ROE of 13.8% was its lowest in 12 years; nonetheless, Bank of Montreal is the only major bank in North America to have earned an ROE of at least 13% for each year over that period.
- We did not meet our financial performance targets for EPS growth and ROE in 2001.

Shareholder Value

Bank of Montreal's governing objective is to maximize the total return to its shareholders and to generate, over time, first-quartile total shareholder returns relative to its Canadian and North American peer groups.

The **five-year average annual total shareholder return (TSR)** represents the average annual total return earned on an investment in Bank of Montreal common shares made at the beginning of a five-year period. The return includes the change in share price and assumes that dividends received were reinvested in additional common shares.

2001 Compared with 2000

The five-year average annual total shareholder return (TSR) is a primary measure of shareholder value and the most important of our 11 financial performance and condition measures. Over the past five years, the Bank's shareholders have earned an average annual return of 14.3% on their investment in the Bank's common shares, compared with 22.9% for the five years ended October 31, 2000. This return is higher than the 5.8% average annual return of the TSE 300 Composite Index®6 for the most recent five-year period. Our above-market return reflects a $13.58 appreciation in share price and total dividends of $4.69 paid on common shares over the five years on an initial investment of $20.28. An investment of $1,000 in Bank of Montreal common shares at the beginning of fiscal 1997 would have been worth $1,949 at October 31, 2001, assuming reinvestment of dividends, for a total return of $949 or 95%.

The average annual TSR of 22.9% for the five years ended October 31, 2000 was significantly higher than the most recent average of 14.3%. The averages are affected by the annual TSRs included in the calculations. The reduction occurred because the annual TSR for 1996 of 42.4% is no longer included in the averaging calculation this period and the newly included annual TSR for 2001 of negative 1.2% was significantly below the average. The relative weakness in the Bank's share price in 2001 occurred in the fourth quarter, as Bank of Montreal's year-to-date annual TSR at the end of its third quarter was one of the highest of its Canadian banking peer group. Nonetheless, the annual TSR for 2001 compared favourably with the return on the TSE 300 Composite Index, which declined by 27.5%.

Since the annual TSR for 1997 was 55.0%, the average annual five-year TSR will decline next year, unless the share price increase in 2002 approximates the high returns of 1997. Our Canadian peer group faces a similar challenge.

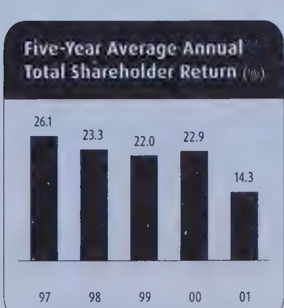
Page 2 also contains information on Shareholder Value.

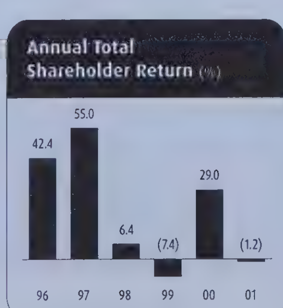
2000 Compared with 1999

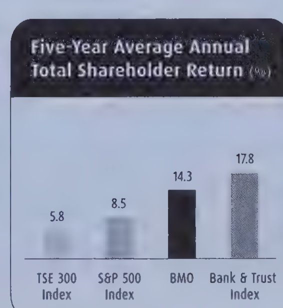
For the five years ended October 31, 2000, Bank of Montreal shareholders earned an average annual return of 22.9% on their common shares, substantially above the average annual TSE 300 return of 18.6%. The annual return to shareholders for 2000 of 29.0% was below the TSE 300 market return of 34.4%, which was favourably affected by the 52.6% return of the largest issuer on the TSE.

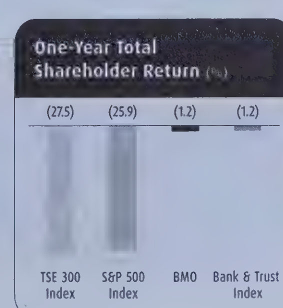
Total Shareholder Return

For the year ended October 31	**2001**	2000	1999	1998	1997
Closing market price per common share ($)	**33.86**	35.25	28.33	31.55	30.43
Dividends paid ($ per share)	**1.09**	0.99	0.93	0.88	0.80
Dividends paid (%)	**3.1**	3.5	2.9	2.9	3.9









Earnings per Share Growth

Our 2001 target was to achieve diluted earnings per share (EPS) growth of 10% to 15%, excluding non-recurring items. All references to EPS are to diluted EPS, unless indicated otherwise.

2001 Compared with 2000

The year-over-year percentage change in EPS is our primary measure for analyzing earnings growth. In 2001, excluding non-recurring items, the Bank's EPS was $2.48, a decrease of 15% from fiscal 2000 and below our target for the year. Including non-recurring items, EPS was $2.66, a reduction of 18% from the prior year. Until fiscal 2001, EPS had increased for 11 consecutive years. Excluding non-recurring items, cash EPS was $2.68, a decrease of 12% from fiscal 2000.

Net income was $1,471 million, a decrease of $386 million or 21% from 2000. Excluding non-recurring items, net income was $1,378 million, a decrease of $294 million or 18% from last year. Table 2 on page 42 outlines net income and earnings per share on a reported basis, on a cash basis and excluding non-recurring items for the last 10 years, while Tables 25 and 26 on page 55 detail non-recurring items and their effects on net income.

During the year, the Bank paid $2.0 billion to repurchase 52 million of its common shares at an average cost of $39.06 per share. In 2000, the Bank repurchased 15.7 million shares at a cost of $500 million. Although repurchases lowered net income, because the Bank had less funds to invest, repurchases increased earnings per share by $0.10 in 2001 and by $0.02 in 2000, excluding non-recurring items.

Excluding non-recurring items, revenues on a taxable equivalent basis increased $270 million or 3% in 2001 to $8,708 million. Revenue growth resulted from a 7% increase in net interest income, partially offset by a 1% decrease in other income, as discussed on page 8.

Excluding non-recurring items, the provision for credit losses rose to $880 million in 2001, an increase of $480 million. In addition, results also reflected a non-recurring general provision of $100 million. The increase in the provision was largely attributable to deterioration in the economic environment and is analyzed more fully in our discussion on credit risk on page 18.

Excluding non-recurring items, expenses grew $370 million or 7% in 2001 to $5,671 million, driven by higher business volumes and strategic initiatives spending. Further information on expense growth can be found on page 11.

Page 2 also contains information on EPS growth.

2000 Compared with 1999

EPS increased $0.91 or 39% to $3.25 in fiscal 2000. The increase reflected a 28% increase over the base established in 1999 for purposes of setting our 10% growth target. Excluding non-recurring items, EPS increased $0.40 or 16% to $2.91.

Earnings per share (EPS) is calculated by dividing net income, after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS, which is our basis for measurements, adjusts for possible conversions of financial instruments into common shares if those conversions would have lowered EPS, and is more fully explained on page 73 in Note 17 to the financial statements.

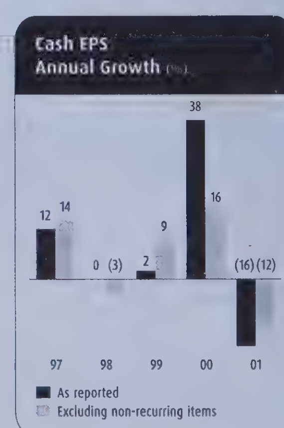
Cash Earnings Measures

Increasingly, we are using cash earnings measures as standard measures to assess performance. Cash measures adjust for the effects of differences between accounting principles in Canada and the United States for the treatment of business combinations. They enhance the comparability of our results with those of our North American peer group by adjusting net income to add back the amortization of goodwill and intangible assets.

Changes in Accounting Policies

As explained on page 73 in Note 17 to the financial statements, we effected a required change in the method of computing diluted earnings per share during the current year. The change was applied retroactively and resulted in modest reductions to reported EPS for the current and prior years.

As explained on page 68 in Note 8 to the financial statements, in 2002 we will adopt new accounting standards pursuant to which goodwill and intangibles with indefinite lives will no longer be amortized to income, but instead will be subject to an impairment test. Goodwill amortization of $62 million was recorded in 2001. There were no indefinite life intangibles in 2001.



Non-Recurring Items

The Bank's operating results periodically include non-recurring items. Such items are generally infrequent, material and quantifiable, and are not expected to recur in the near future. Their inclusion is not considered to be appropriate in assessing the ongoing operations of the Bank. As a result, trend analysis is considered most relevant when non-recurring items are excluded from results. Throughout the MD&A, we have calculated our performance against our primary financial performance and condition measures both including and excluding these non-recurring items. All non-recurring items are outlined in detail on page 55 in Table 25 of the Supplemental Information section.

Profitability

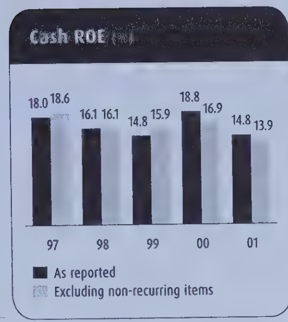
Our 2001 target was to achieve a return on equity (ROE) of 17.0% to 17.5%, excluding non-recurring items.

2001 Compared with 2000

ROE is another of our primary performance measures. The Bank achieved a 13.8% ROE in 2001, compared with 18.0% in 2000. Although down from the prior year, this marked 12 consecutive years in which ROE exceeded 13%. Bank of Montreal is the only major North American bank to have earned that distinction. Excluding non-recurring items, ROE was 12.9%, down from 16.1% last year and below our target.

Another measure of profitability is cash ROE, which adjusts net income by adding back the amortization of goodwill and intangible assets. No adjustment is made to shareholders' equity regarding goodwill and intangible assets. Excluding non-recurring items, cash ROE was 13.9% in 2001, compared with 16.9% in 2000. Cash ROE was increased 1.3 percentage points by the effects of share buybacks. ROE statistics are disclosed in Table 3 on page 43.

Page 2 also contains information on ROE growth.



Return on common shareholders' equity (ROE) is calculated as net income, less preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital and retained earnings.

2000 Compared with 1999

In 2000, ROE was 18.0%, compared with 14.1% in 1999. Excluding non-recurring items, ROE was 16.1% in 2000, up from 15.1% in 1999.

Net Economic Profit Growth

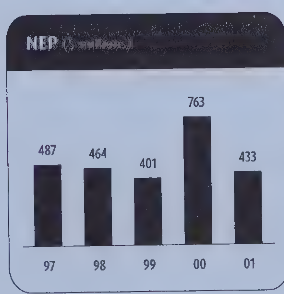
2001 Compared with 2000

The last of our four primary value measures is growth in Net Economic Profit (NEP). As indicated in the table below, NEP of $433 million declined from 2000 because of a reduction in net income and higher average shareholders' equity. This was partially offset by a lower rate charged for capital resulting from lower yields on 10-year Government of Canada bonds.

Page 2 also contains information on NEP growth.

2000 Compared with 1999

NEP increased $362 million or 90% to $763 million in 2000. The increase related both to higher earnings excluding non-recurring items, and to higher earnings from non-recurring items, partially offset by the effects of increases in shareholders' equity and a higher rate charged for capital.



Net economic profit (NEP) growth is the percentage change year-over-year in total NEP, where NEP represents cash net income available to common shareholders, less a charge for capital. NEP is an effective measure of economic value added.

Net Economic Profit ($ millions, except as noted)

For the year ended October 31	2001	2000	1999	1998	1997
Net income available to common shareholders	**1,391**	1,756	1,265	1,238	1,222
After-tax impact of non-cash goodwill and other valuation intangibles expenses	**101**	74	67	69	71
Cash net income available to common shareholders	**1,492**	1,830	1,332	1,307	1,293
Less: charge for capital	**1,059**	1,067	931	843	806
Net economic profit	**433**	763	401	464	487
Net economic profit growth (%)	**(43)**	90	(14)	(5)	37
Charge for capital					
Average common shareholders' equity	**10,100**	9,745	8,976	8,128	7,165
Cost of capital (%)	**10.5**	11.0	10.4	10.4	11.3
Charge for capital	**1,059**	1,067	931	843	806

Financial Statement Analysis

This section provides an analysis of our financial performance for 2001 and 2000 that focuses on the statement of income and the balance sheet included in our consolidated financial statements, which begin on page 57.

Statement of Income

Highlights

- Excluding non-recurring items, revenue growth was 3%, compared with 6% in 2000.
- Non-recurring revenues were $155 million, compared with $226 million in 2000.
- Net interest income increased by 7%.
- Excluding non-recurring items, expense growth was 7% in 2001, compared with 3% growth in 2000.

Revenue Growth

Our 2001 target was to achieve revenue growth of 7% to 9%, excluding non-recurring items.

2001 Compared with 2000

Total revenue increased $199 million to $8,863 million in 2001. Other income was $155 million higher in 2001 and $226 million higher in 2000 because of the inclusion of non-recurring items, details of which are outlined in Table 25 on page 55. Excluding non-recurring items, total revenue increased $270 million or 3% to $8,708 million. The increase, which was lower than our 2001 target, consisted of a $303 million or 7% increase in net interest income and a $33 million or 1% decrease in other income.

Total Revenue (excluding non-recurring items) ($ millions)

For the year ended October 31	2001	2000	1999	1998	1997
Net interest income (teb)	**4,641**	4,338	4,417	4,152	4,186
Year-over-year growth (%)	**7**	(2)	6	(1)	13
Other income	**4,067**	4,100	3,539	3,118	2,981
Year-over-year growth (%)	**(1)**	16	14	5	19
Total revenue	**8,708**	8,438	7,956	7,270	7,167
Year-over-year growth (%)	**3**	6	9	1	15

Net Interest Income

Net interest income is comprised of earnings on assets, including interest and dividend income and the Bank's share of income from investments accounted for using the equity method of accounting, less interest expense paid on liabilities. It is the difference between what the Bank earns on assets such as loans and securities, and what it pays on liabilities such as deposits. Net interest margin is the ratio of net interest income to average assets.

Net interest income for the year was $4,641 million, an increase of $303 million or 7% from 2000. Average assets grew $8.3 billion from 2000, while the average net interest margin increased 6 basis points to 1.91% from 1.85% in 2000. Following a reduction in the Bank's 20% ownership position in Bancomer, as a result of its corporate reorganization, we discontinued equity accounting for the Bank's investment in the third quarter of 2000. The Bank's share of earnings recognized on its investment declined $54 million from 2000, representing a 2 basis point decline in net interest margin.

Taxable Equivalent Basis (teb)

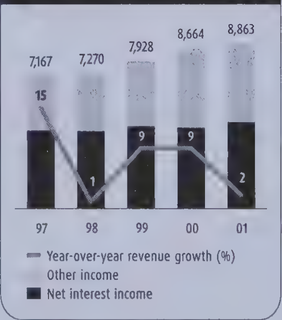
Revenues reflected in our MD&A are presented on a taxable equivalent basis (teb). The teb basis increases revenues from certain securities to the equivalent amount that would be subject to tax, to facilitate comparisons. The effect is disclosed in Table 6 on page 44 and discussed further in our glossary on page 90.

In the Personal and Commercial Client Group, increased net interest income was generated by volume growth across all lines of business. Margins declined modestly year-over-year as they were affected by competitive pressures and spread compression in the declining interest rate environment.

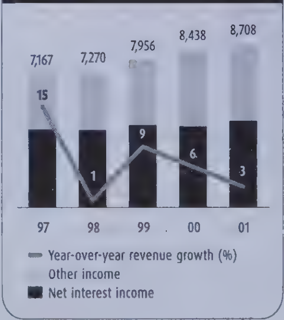
In the Private Client Group, net interest income growth was attributable to businesses acquired in the United States, partially offset by the effects of lower margin lending and spread compression as market rates declined.

Net interest income of the Investment Banking Group improved year-over-year as the group benefited from the declining interest rate environment, which reduced funding costs. Higher levels of dividend income on merchant banking securities and wider spreads in corporate lending also contributed to improved net interest margins.

Revenue and Annual Growth
(as reported)
($ millions)



Revenue and Annual Growth
(excluding non-recurring items)
($ millions)



Change in Net Interest Income, Average Assets and Net Interest Margin

	Net interest income (teb) ($ millions)			Average assets ($ millions)			Net interest margin (in basis points)		
For the year ended October 31	**2001**	2000	% change	**2001**	2000	% change	**2001**	2000	Change
P&C Canada	**2,439**	2,401	2	**81,053**	79,279	2	**301**	303	(2)
P&C Harris	**623**	536	16	**14,856**	12,401	20	**419**	432	(13)
Personal and Commercial Client Group (P&C)	**3,062**	2,937	4	**95,909**	91,680	5	**319**	320	(1)
Private Client Group	**531**	505	5	**5,345**	4,291	25	**994**	1,176	(182)
Investment Banking Group	**1,260**	1,098	15	**141,685**	139,567	2	**89**	79	10
Emfisys and Corporate Support	**(212)**	(202)	(5)	**309**	(594)	nm	**nm**	nm	nm
Total Bank	**4,641**	4,338	7	**243,248**	234,944	4	**191**	185	6

nm – not meaningful

Contribution to Net Interest Income Growth (excluding non-recurring items) (%)

For the year ended October 31	2001	2000	1999
Business volumes and spreads	**5.8**	(0.3)	8.4
Trading revenues	**1.2**	(1.2)	0.6
Securitizations	**–**	(0.3)	(2.6)
Total net interest income growth	**7.0**	(1.8)	6.4

Contribution to Other Income Growth (excluding non-recurring items) (%)

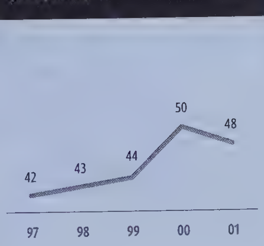
For the year ended October 31	2001	2000	1999
Business volumes and other	**2.4**	4.0	5.5
Trading revenues	**2.5**	2.6	8.2
Securitizations	**(0.3)**	1.3	4.4
Capital market fees	**(2.3)**	6.4	(0.9)
Securities gains	**(2.2)**	2.9	(4.1)
Investment management fees	**(0.9)**	(1.3)	0.4
Total other income growth	**(0.8)**	(15.9)	13.5

Other Income

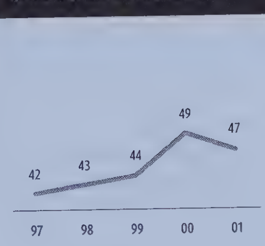
Other income, which comprises all revenues other than net interest income, declined $104 million to $4,222 million from $4,326 million in 2000. Excluding non-recurring items, other income was $4,067 million, a decrease of $33 million or 1% from $4,100 million last year. Other income had grown relative to net interest income in recent years.

Non-recurring items in 2001 included $321 million of gains on sales of Bancomer, $178 million of the write-downs on our investments in collateralized bond obligations (CBOs), and $12 million of gains on sales of branches. Non-recurring items in 2000 included a $112 million gain on sale of Partners First, a $74 million gain on sale of our corporate trust businesses and $40 million of gains on sales of our branches. The effects of these items are outlined on page 55. The remainder of this section is presented excluding non-recurring items.

Other Income as a % of Total Revenue (as reported)



Other Income as a % of Total Revenue (excluding non-recurring items)



Deposit and payment service charges rose $24 million to $670 million. These fees represent income earned on both retail and commercial deposit accounts, and other payment services. The increase reflected higher volumes and service initiatives.

Lending fees increased $30 million to $352 million, reflecting improved volumes.

Capital market fees, which relate to investment banking and capital markets transactions, decreased $93 million to $976 million in 2001. The decrease reflects reduced market activity during the year as equity trading volumes, mergers and acquisitions and new equity issues all declined from the record levels of 2000.

Investment management and custodial fees declined $37 million to $336 million, due in part to the effect of the sale of our U.S. trust businesses in fiscal 2000.

Increased mutual fund revenues of $19 million resulted from an increase in managed assets in 2001, partly due to business acquisitions.

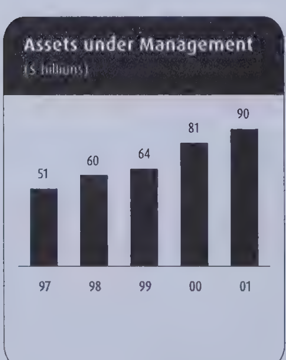
Securitization revenues declined $12 million to $331 million. Results this year reflected gains of $82 million on securitization compared with $23 million in fiscal 2000. The 2001 gains were partially offset by a $22 million write-down of a receivable on our corporate loan securitization. While higher average levels of securitized assets also contributed to higher revenues, other income on certain securitization vehicles declined because of weaker credit quality. Securitization revenues were favourably affected by changes to accounting for securitizations, as explained more fully on page 66 in Note 6 to the financial statements.

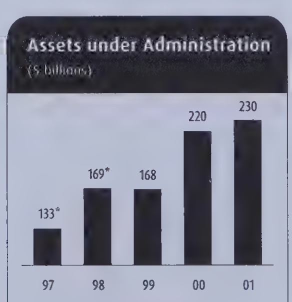
Components of Other Income (excluding non-recurring items) ($ millions)

For the year ended October 31	2001	2000	1999	1998	1997
Deposit and payment service charges	**670**	646	616	558	508
Lending fees	**352**	322	329	290	240
Capital market fees	**976**	1,069	841	869	919
Card services	**204**	216	205	196	251
Investment management and custodial fees	**336**	373	419	407	299
Mutual fund revenues	**251**	232	207	199	155
Trading revenues	**490**	388	295	40	276
Securitization revenues	**331**	343	296	158	32
Investment securities gains (losses)	**(20)**	71	(30)	97	52
Other fees and commissions	**477**	440	361	304	249
Total	**4,067**	4,100	3,539	3,118	2,981

Investment securities gains decreased $91 million to negative $20 million. Revenues for 2001 were affected by a non-cash $47 million write-down on equity investments in our own CBOs in the second quarter, determined by applying new accounting guidelines in the United States. Securities gains in 2000 included gains of $30 million realized on the sale of Mexican bonds, $36 million associated with the Bank's merchant banking operation and $31 million from venture capital activities. Other fees and commissions rose $37 million to $477 million due to higher insurance revenues.

Trading revenues included in other income rose $102 million to $490 million and are discussed in detail.





*Excluding global custody assets of $168 billion and $177 billion in 1997 and 1998, respectively.

Interest and Non-Interest Trading Revenues ($ millions)

For the year ended October 31	2001	2000	1999	1998	1997
Interest rates	**241**	178	154	85	52
Foreign exchange	**126**	112	118	114	92
Equities	**118**	165	50	(70)	22
Other	**120**	(2)	90	4	146
Total	**605**	453	412	133	312
Reported as:					
Net interest income	**115**	65	117	93	36
Other income – trading revenues	**490**	388	295	40	276
Total	**605**	453	412	133	312

Trading Revenues

Total trading revenues include net interest income and other income earned from on- and off-balance sheet positions undertaken for trading purposes. The management of these positions typically includes marking them to market on a daily basis. Trading revenues include income (expense) and gains (losses) from both on-balance sheet instruments and off-balance sheet interest rate, foreign exchange (including spot positions), commodity and equity contracts.

Total revenues from trading-related activities increased $152 million to $605 million. This growth reflects more active fixed income markets and the resulting increase in client-driven trading revenues, as well as improved commodity trading performance in 2001. Equities trading gains declined due to less active client trading. In fiscal 2000, exposure to natural gas price volatility resulted in a pre-tax loss of $52 million ($30 million after tax). The risk management section of the MD&A on page 20 provides more analysis of trading revenues.

2000 Compared with 1999

Total revenues increased $736 million to $8,664 million. Excluding non-recurring items, total revenues grew $482 million or 6% to $8,438 million. Results in 1999 included an extra month's revenue of $89 million due to the change in year-end of BMO Nesbitt Burns. Adjusted to exclude that effect and the $54 million of reduced earnings recognized on the investment in Bancomer in 2000, revenues from normal operations increased $625 million or 8% year-over-year. The $482 million increase consisted of a $561 million or 16% increase in other income and a $79 million or 2% decline in net interest income. Excluding non-recurring items, growth in other income was largely driven by higher business volumes. The decline in net interest income reflected the lower contribution from our investment in Bancomer and lower trading revenues, partially offset by higher retail and business banking volumes and improved spreads.

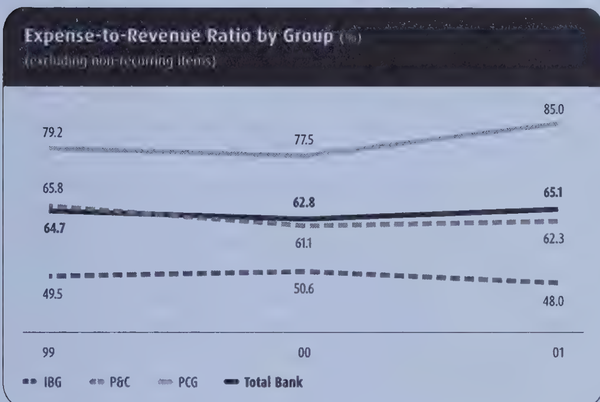
Provision for Credit Losses

The provision for credit losses totalled $980 million, compared with $358 million in fiscal 2000. Excluding non-recurring items, the provision was $880 million in 2001, compared with $400 million. The provisions are discussed on page 18 in the credit risk section.

Expense-to-Revenue Ratio

Performance Review

The expense-to-revenue ratio of 64.0% was 330 basis points higher than in 2000. Excluding non-recurring items, the expense-to-revenue ratio of 65.1% increased 230 basis points from 62.8% in 2000 and was above our target. The Bank's overall ratio in any year is affected by the relative strength of the revenues of each of the operating groups, which typically have differing ratios because of the nature of their businesses. Operating groups that have higher expense-to-revenue ratios typically require relatively less capital to generate revenues. Excluding non-recurring items, revenue growth was 3% while expense growth was 7%.



Expense growth was influenced by increased strategic initiatives spending in the operating groups and increased front-line staffing costs in the Personal and Commercial Client Group. Employee benefits costs increased, partly due to changes in accounting for pensions and future benefits costs as discussed below. Business acquisitions, net of dispositions, increased expenses marginally.

In the first quarter of fiscal 2001, we adopted a new standard for accounting for pensions and other future employee benefits. The standard was adopted on a retroactive basis by charging $421 million ($250 million after income taxes) to retained earnings at the beginning of fiscal 2001. The new standard resulted in the recognition of increased annual benefits expenses of approximately $69 million ($41 million after tax) in 2001, or 1.3% of total expense growth.

Salaries and employee benefits increased $147 million to $3,212 million, compared with $3,065 million in 2000. The increase was partly attributable to acquired businesses and costs of increased front-line staffing. Revenue-based compensation costs declined modestly.

Premises and equipment costs rose due to business growth and project costs.

Because of changes in the shareholder agreement governing the Bank's rights in respect of Symcor, its items processing affiliate, the accounting related to Symcor changed in 2001. We had accounted for the Bank's share of the results of Symcor using the proportionate consolidation method, whereby the Bank's proportionate share of salaries and other Symcor costs was reflected in results as though these costs were incurred directly. These costs are now invoiced to the Bank and reflected in other expenses, accounting for $155 million of the year-over-year increase in other expenses.

The decline in communications costs related to the changes in accounting for Symcor.

The **expense-to-revenue ratio** is our primary measure of productivity. It is calculated as non-interest expense divided by total revenues. The ratio is calculated on a taxable equivalent basis.

2000 Compared with 1999

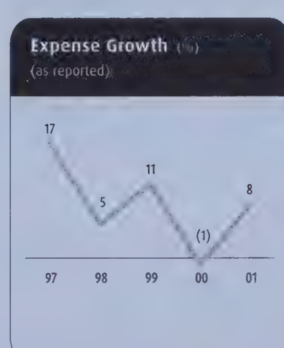
The expense-to-revenue ratio in 2000 was 60.7%, as expenses from normal operations increased 5% while revenues from normal operations increased 8%. Excluding non-recurring items, the expense-to-revenue ratio was 62.8%, compared with 64.7% in 1999, as expenses grew 3% while revenues increased 6%.

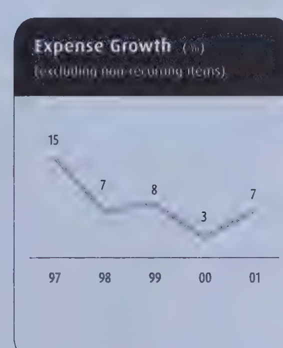
Non-Interest Expense (excluding non-recurring items) ($ millions)

For the year ended October 31	**2001**	2000	1999	1998	1997
Salaries and employee benefits	**3,212**	3,065	2,820	2,574	2,535
Premises and equipment	**1,153**	1,071	1,123	972	866
Communications	**194**	259	268	266	246
Other expenses	**1,069**	883	915	949	817
Amortization of intangible assets	**43**	23	21	24	28
Total non-interest expense	**5,671**	5,301	5,147	4,785	4,492

Contribution to Expense Growth (excluding non-recurring items) (%)

For the year ended October 31	**2001**	2000	1999
Revenue-based compensation	**(0.2)**	4.4	1.6
Currency translation effect	**1.1**	(0.5)	0.4
Acquired businesses	**1.2**	0.6	–
Disposed businesses	**(0.8)**	(0.9)	–
Strategic initiatives spending	**2.2**	(3.8)	1.2
Other	**3.5**	4.6	2.9
BMO Nesbitt Burns additional month	**–**	(1.4)	1.5
Total expense growth	**7.0**	3.0	7.6





Strategic Initiatives

Strategic initiatives expenses in 2001 were $300 million, up from $183 million in 2000, and were directed at the following more significant initiatives.

Personal and Commercial Client Group (P&C)

- Consolidated Statements – development of programs to consolidate customers' accounts on one statement, providing added convenience.
- Client Value Management – development and use of a customer relationship management tool.
  - Pathway Connect – creation of the leading-edge technology platform that provides our sales force with the related customer information and enhanced sales tools.
- Mortgage Specialists – expanded our direct sales force to offer convenient mortgage financing at the customer's location of choice.
- Integrated Sales and Retention Program – developed a direct mail program where opportunity exists to expand customer relationships.
- Competitive Pricing – selectively increased prices and fees while providing additional services and flexibility to customers.
- Commercial Line of Business Redesign
  - Commercial Phase II (including direct bank) – provided commercial clients with expanded access through the telephone and Internet.
  - Face to Face – improved efficiency and customer service by implementing a customer relationship management tool.
- Instore Branch Openings and Sales Force Expansion – extending our reach in key markets.

Private Client Group (PCG)

- Investment Fund Specialists – increased the sales force responsible for leveraging relationships with the Bank's client base.
- Full-Service Online – developed a program that combines the benefits of a full-service relationship with comprehensive Internet-based services.
- Harris AdvantEdge™[1] – created to offer full-service investing, enabling PCG to provide a complete range of wealth management services and products to U.S. clients.

Investment Banking Group (IBG)

- Trade Finance Joint Venture (Proponix) – developed to provide trade finance processing activities to partner banks and third parties.
- Credit Derivatives – expanded into a fee generating business that actively prices, trades and distributes credit risk.

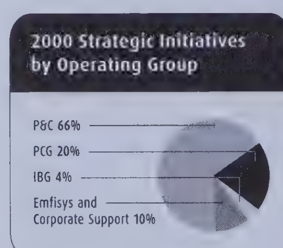
Emfisys and Corporate Support

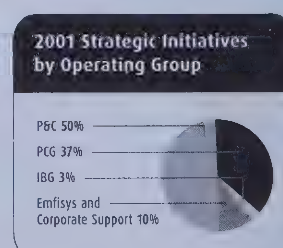
- BMO Buying Online – implemented to achieve savings by automating procurement activities.
- Finance Value Based Management – completed one third of the enterprise financial management information system to-date.

Provision for Income Taxes

The provision for income taxes that is reflected in the consolidated statement of income is based upon transactions recorded in income, regardless of when such transactions are subject to income taxes, with the exception of the repatriation of retained earnings from foreign subsidiaries. Non-recurring items and income taxes thereon are outlined on page 55 in Table 25. In the first quarter of fiscal 2001, a non-recurring $25 million charge for income taxes was reflected in results. The charge related to the effect of proposed federal tax rate reductions on the Bank's future tax assets.

On a taxable equivalent basis, the effective tax rate was 29.1% in 2001, compared with 36.9% in 2000. Excluding non-recurring items, the effective rate for the year was 31.6%, an improvement from 36.4% in 2000. The year-over-year improvements related to lower statutory tax rates, a shift in the proportion of income taxed in lower tax rate jurisdictions and entities, various tax initiatives and the resolution of issues with taxation authorities. The benefits of tax initiatives are generally reflected in Corporate Support in the year they arise. The components of variances between the effective and statutory tax rates are outlined on page 72 in Note 16 to the financial statements.





Fourth Quarter 2001 Compared with Fourth Quarter 2000

Net income in the fourth quarter of 2001 was $4 million, compared with $485 million in the fourth quarter of fiscal 2000. As previously indicated, our results in the fourth quarter were affected by a $105 million after-tax write-down in equity investments in our own CBOs. Results in the fourth quarter of 2000 were reduced by a net $55 million of after-tax non-recurring items, as detailed on page 55. Excluding the effects of non-recurring items, net income declined $321 million to $109 million. Tables 25 to 28 on pages 55 and 56 outline the quarterly results and the effects of non-recurring items for the last eight quarters, together with relevant operating statistics.

Results in the most recent quarter were affected by the continuing deterioration of the U.S. economy and the more recent weakening of its Canadian counterpart, and by the belief that the economic weakness is now likely to continue for longer than had been previously anticipated. As a result, our regular comprehensive quarterly review of our portfolios prompted fourth quarter adjustments to reflect a $430 million increase in the provision for credit losses and a $252 million write-down for impairment in the value of certain other assets, most notably, the Bank's equity investment in its own CBOs. Excluding the $414 million after-tax effect of these items, net income excluding non-recurring items was $418 million, or $12 million lower than in the fourth quarter of last year. The reduction related to Private Client Group net income, which declined because of lower revenues in the weak equity markets environment, and Personal and Commercial Client Group, which was affected in Canada by spread compression in the declining interest rate environment. While the Investment Banking Group was the group most affected in the quarter by increased loss provisioning and by write-downs in other assets, its results increased otherwise, due to strength in its Capital Markets businesses. They benefited from increased client-driven activities and the lower interest rate environment that lowered funding costs for our interest-rate-sensitive businesses.

Balance Sheet

As at October 31 ($ millions)	2001	2000	1999	1998	1997
Assets					
Cash resources	**17,656**	18,508	24,036	19,730	32,245
Securities	**37,676**	46,463	43,273	43,465	41,789
Loans (net)	**136,829**	133,817	138,001	129,691	114,918
Acceptances	**7,936**	8,630	6,753	6,944	5,594
Other assets	**39,312**	25,978	18,552	22,760	13,292
Total assets	**239,409**	233,396	230,615	222,590	207,838
Liabilities and Shareholders' Equity					
Deposits	**154,290**	156,697	156,874	143,983	144,212
Other liabilities	**69,763**	59,847	58,048	63,208	50,892
Subordinated debt	**4,674**	4,911	4,712	4,791	3,831
Share capital – Preferred	**1,050**	1,681	1,668	1,958	1,274
Common	**3,375**	3,173	3,190	3,095	3,019
Retained earnings	**6,257**	7,087	6,123	5,555	4,610
Total liabilities and shareholders' equity	**239,409**	233,396	230,615	222,590	207,838

Total assets increased $6.0 billion or 3% from last year to $239.4 billion at October 31, 2001. The increase was largely due to higher other assets, which rose due primarily to higher unrealized gains and amounts receivable on derivatives and higher amounts due from dealers and brokers. The higher derivatives balances were largely due to the significant declines in interest rates that resulted in certain positions increasing in value. Offsetting positions resulted in a significant increase in unrealized losses and amounts due on derivatives, included in other liabilities. Higher amounts due from dealers and brokers were largely due to a change to trade date accounting in certain Capital Markets businesses during the year. Loans balances also increased, while there was an $8.8 billion decline in securities.

Securities ($ millions)

As at October 31	2001	2000	1999	1998	1997
Investment securities	**21,470**	24,469	26,027	24,313	18,569
Trading securities	**16,200**	21,994	17,246	18,791	22,857
Loan substitute securities	**6**	–	–	361	363
Total	**37,676**	46,463	43,273	43,465	41,789

Investment securities declined $3.0 billion from October 31, 2000 to $21.5 billion. The decline related to reduced holdings of Canadian federal government securities and to lower levels of corporate debt and equity, including the sale of the investment in Bancomer.

The market value of the Bank's investment portfolio exceeded its book value by $244 million at October 31, 2001, compared with an excess of $185 million in 2000. Notwithstanding this increase, the market value excess was particularly affected by two investment positions. The Bank's investment in Bancomer, which had a market value excess of $277 million last year, was sold in 2001 for a gain of $420 million, less a $99 million deferred currency translation loss recognized on the sale. In addition, the market value excess of holdings in 724 Solutions Inc. declined $148 million in the weaker environment for technology stocks. The excess of market values relative to book values of fixed income securities rose strongly, particularly in the United States, largely due to lower interest rates. The investment securities portfolio is used primarily to hedge core deposits, and the excess of fair value over book value of deposits also rose in the lower interest rate environment.

Trading securities declined $5.8 billion from October 31, 2000 to $16.2 billion. Holdings of U.S. federal government securities declined, largely due to the Bank discontinuing its role as a primary dealer. Canadian federal holdings also declined.

Note 3 to the financial statements on pages 62 and 63 provides further details on securities.

Net Loans and Acceptances ($ millions)

As at October 31	2001	2000	1999	1998	1997
Residential mortgages	**41,941**	39,485	38,189	35,847	35,555
Consumer instalment and other personal loans	**19,107**	18,038	16,912	16,095	14,682
Credit card loans	**1,527**	1,407	1,160	797	1,912
Loans to businesses and governments*	**61,249**	60,176	58,027	51,001	45,809
Acceptances	**7,936**	8,630	6,753	6,944	5,594
Securities purchased under resale agreements	**14,954**	16,308	25,090	27,520	18,517
Gross loans and acceptances	**146,714**	144,044	146,131	138,204	122,069
Allowance for credit losses	**(1,949)**	(1,597)	(1,348)	(1,166)	(1,145)
Net loans and acceptances	**144,765**	142,447	144,783	137,038	120,924

*Includes loan substitute securities classified as securities from 1997 to 1999.

Net loans and acceptances increased $2.3 billion to $144.8 billion in fiscal 2001, including the addition of $852 million of loans of First National Bank of Joliet. Table 12 on page 49 provides a comparative summary of net loans by province and industry. Securities purchased under resale agreements decreased $1.4 billion, but balances remained within normal levels. Market preferences and overall liquidity management in the financial markets drive the use of these low-risk, low-margin products. Loans and acceptances to businesses and governments increased $379 million to $69.2 billion. The change reflects an increase of approximately $2.2 billion in loans to financial institutions, offset principally by reductions in loans to the manufacturing sector, which has experienced reduced demand in 2001.

In the Personal and Commercial Client Group, loan balances were reduced by approximately $500 million due to recent branch sales. Loan balances were also reduced by securitizations of lease receivables and residential mortgages totalling approximately $1.5 billion.

Table 10 on page 48 provides a comparative summary of loans by geographic location and product. The portfolio remains well diversified, with minimal change in the geographic breakdown from last year-end, as loan growth was concentrated in the relatively stronger Ontario region.

Loan quality is discussed in the credit risk section of the MD&A on page 18 and further details on loans are provided in Notes 4, 5 and 6 to the financial statements, starting on page 64.

Deposits ($ millions)

As at October 31	2001	2000	1999	1998	1997
Banks	**20,539**	23,385	30,398	26,256	31,272
Businesses and governments	**66,132**	69,454	65,459	58,064	54,901
Individuals	**67,619**	63,858	61,017	59,663	58,039
Total	**154,290**	156,697	156,874	143,983	144,212

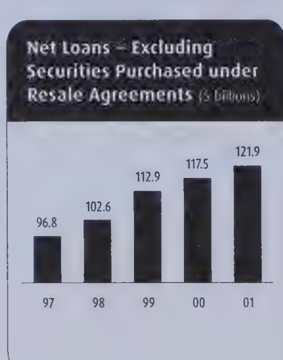
Deposits declined $2.4 billion from October 31, 2000 to $154.3 billion. Deposits from businesses and governments, which account for 43% of total deposits, decreased $3.4 billion. Deposits by banks, which tend to be somewhat variable, decreased $2.8 billion. Deposits from individuals, which account for 44% of total deposits, tend to be more stable and increased $3.8 billion. During the year, the Bank introduced a premium rate savings account that increased deposit balances. Deposit levels benefited from the addition of $1.4 billion of deposits of Joliet. Further details on the composition of deposits are provided on page 69 in Note 11 to the financial statements and in the Enterprise-Wide Risk Management section on page 22.

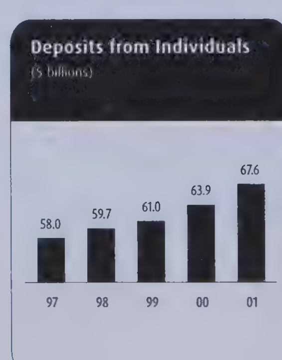
Subordinated Debt

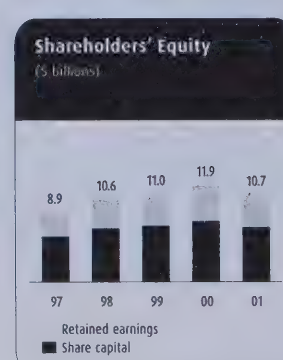
Subordinated debt decreased $237 million in 2001 to $4,674 million. Note 13 to the financial statements on page 70 provides details on the attributes of the debt, issues and retirements during the year and on future maturities by year.

Shareholders' Equity

Shareholders' equity decreased $1,259 million or 11% to $10,682 million, from $11,941 million in 2000. The Bank's Consolidated Statement of Changes in Shareholders' Equity on page 60 provides an easy-to-read summary of items that increase or reduce shareholders' equity, while Note 14 on page 71 provides details on the components of and changes in share capital. The most significant source of equity in 2001 was net income, while share issues, including $400 million of common shares issued on the acquisitions of Joliet and Guardian Group of Funds Ltd., were also important sources of equity. The most significant reductions related to our common share repurchase program, which reduced shareholders' equity by $2.0 billion in 2001 and by $500 million in fiscal 2000. The 52 million common share repurchase program of 2001 was completed in the final weeks of the fiscal year. Dividends paid to shareholders, although regular occurrences, are also significant outflows of equity. Details of our enterprise-wide capital management processes and strategies can be found on page 24.







Enterprise-Wide Strategic Management

Bank of Montreal Strategic Objective

Our strategic objective is to be a leading transnational bank by continuing to invest in our core Canadian franchise, expanding selectively and substantially in the United States and building on our long-standing capabilities.

Bank of Montreal Strategic Milestones for 2002 and Beyond

- Achieve top-tier customer loyalty among personal and commercial clients in Canada.
- Achieve the number one market share in small business banking in Canada.
- Maintain leading investment banking positions in Canada in the areas of merger and acquisition advisory, equity underwriting, research and sales and trading.
- Significantly expand our geographic coverage of prime wealth markets in the United States.
- Enhance the investment banking product suite in the United States.
- Become the dominant full-service bank in the "Chicagoland" area.

Objectives of the Office of Strategic Management

The objective of the Office of Strategic Management is to guide the development and implementation of strategies at the line of business level in support of operating group and enterprise level strategies. Developing a specialized competency in strategic management is an important priority for the Bank. The results of this effort are demonstrated in the Review of Operating Groups Performance sections of this MD&A, indicating that the Bank's enterprise strategy is clearly reflective of the group and line of business strategies, which are well-grounded in proven strengths and capabilities.

Strategic management includes coordinating standards and activities related to establishing corporate targets and line of business commitments, developing and updating strategies, optimally employing resources, tracking and managing performance against commitments and linking compensation to performance.

Implementing strategic management standards supports effective decision-making by promoting dialogue around the highest-value strategic issues, comparability in assessing investment opportunities and effective business mix and resource allocation decisions.

Strategic Management Standards

- Strategies are developed for each of the Bank's lines of business using a rigorous set of standards.
- Line of business and group strategies are updated annually, or more frequently when significant variances from committed financial or strategic performance targets occur.
- Approved financial performance measurement principles are applied at the line of business and group levels in developing strategies and in each element of the strategic management process.
- These strategies become the basis for the development of group and line of business financial plans.
- The potential of a strategy to create value is measured against alternate strategies to ensure that the highest-value strategies are selected.
- Risk assessments are completed, in conjunction with Risk Management Group, during each strategy update. Risks are quantified using the Capital at Risk (CaR) measure. This measure is the basis for allocating capital and is reflected in the key primary measure of Net Economic Profit.
- Resources are allocated to value-creating businesses.
- Financial and strategic performance commitments are tracked and managed to monitor the implementation of strategies and to measure performance against milestones.

Approach

- Through the Office of Strategic Management, processes are designed, developed and implemented to support effective strategic management decision-making throughout the Bank.
- Clear and concise strategic management standards and measures are documented and are communicated through formal and informal training and coaching.
- Standards and processes are coordinated throughout the Bank by specialized professionals with a high degree of strategic management expertise and understanding of the Bank's strategic direction.

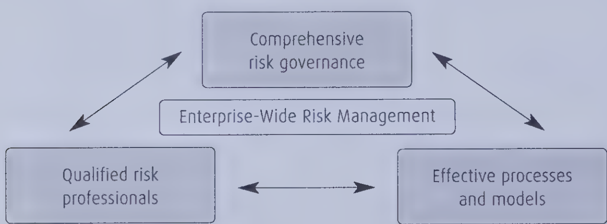
Strategy Governance

- Each line of business is responsible for developing and executing strategies and for ongoing monitoring.
- The Office of Strategic Management, which reports directly to the Chief Executive Officer, oversees strategic activities and ensures adherence to standards.
- Strategies are approved by the Bank's Management Board Executive Committee.
- Group level strategies are approved by the Board of Directors annually, or when material changes occur.
- Significant line of business strategies, as well as significant change management initiatives, are also presented to the Board of Directors for approval.
- All other line of business strategies require final approval from the Risk Review Committee of the Board of Directors.
- All group strategies are reviewed and discussed during the course of Board Strategy Day, an annual session with active participation from the Board of Directors and the Bank's Management Board Executive Committee.

Enterprise-Wide Risk Management

In order to provide value to our clients and to ensure our ability to maximize the total return to our shareholders, Bank of Montreal has developed an enterprise-wide ability to recognize, understand, measure, assess and manage the risks taken across the organization.

We have created an enterprise-wide and risk-wide framework to guide our risk-taking activities and to ensure that they are aligned with our clients' needs and with our shareholders' expectations. This framework is built on three principal elements – comprehensive risk governance, qualified risk professionals and effective processes and models.



Comprehensive Risk Governance

The risk governance structure is designed to ensure the Bank has a strong and well-informed risk culture geared toward making sound business decisions that balance risk and reward and drive the maximization of the Bank's total return to shareholders. Risk governance therefore involves ensuring that the Bank's revenue-generating activities are consistent with our risk appetite and standards.

Our governance structure for risk-taking is based on the following:

- authority for all risk-taking activities rests with the Board of Directors and its Risk Review Committee, which approves risk management policies, delegates limits and reviews management's assessment of risk in the major risk-taking activities;
- corporate policies outline principles and standards, limit escalation procedures and provide measurement guidelines for each category of risk;
- the Head of Risk Management Group reports directly to the Chief Executive Officer and also provides reports to the Risk Review Committee of the Board of Directors, bringing together the functions of policy development, risk measurement, risk review and risk reporting;
- additional dedicated risk management units function within each of the Bank's operating groups; and
- the Bank's management committee structure, which supports the Chief Executive Officer, includes:
  - the Risk Management Committee (and its sub-committees dealing specifically with market risk, liquidity and funding risk and operational risk issues); and
  - the Chief Executive Officer's Counterparty Risk Council, which deals principally with credit risk issues.

Qualified Risk Professionals

Qualified risk professionals within the Bank's operating groups and within the Risk Management Group are the second key element of our enterprise-wide framework. Their competence and experience enable us to:

- promote a strong culture that places value on disciplined and effective risk management processes and controls;
- adhere to established risk management standards for the evaluation and acceptance of risk; and
- apply sound business judgement, using effective business models in our decision-making.

Effective Processes and Models

Effective processes and models are the third element of our enterprise-wide risk management framework. We use many processes and models to guide decision-making.

Rigorous processes are used throughout the Bank to ensure the consistent and effective management of risk through a control framework. Processes are periodically reviewed by Corporate Audit. The specific risk sections below outline risk management processes in more detail.

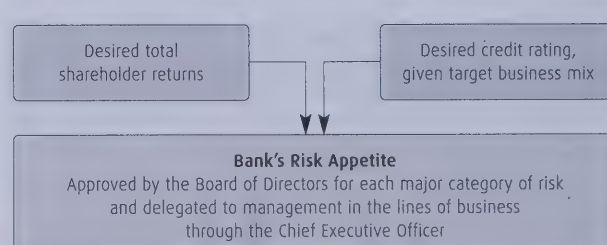
The models used at the Bank range from the very simple to those that value complex transactions or involve sophisticated portfolio management and capital management. These models are used in the Bank's operating groups to guide strategic decisions and to assist in making day-to-day lending, trading and underwriting, investment and operational decisions.

Effective models have also been developed for the measurement of risk. We employ these models to measure the Bank's exposure to risk (credit, market, liquidity and funding, and operational) and we measure the total risk on an integrated basis using the Capital at Risk measure.

Acceptance of models is dependent on an effective vetting capability within the Bank. A process has been established whereby models must be independently verified by the Risk Management Group prior to use and are subject to reviews to ensure that changing business conditions and uses do not compromise their integrity. This process provides an independent validation of the model's appropriateness and underlying assumptions. The implementation of modelling is checked to ensure accurate results are produced. Sensitivity of outputs to inputs is identified and the models and assumptions are kept up-to-date. Review schedules are set based on complexity and the potential financial impact of reliance on a model.

Integrated Risk Management

The management of risk is integrated with our management of capital and strategy. This ensures that risks incurred in pursuit of the Bank's strategic objective are consistent with shareholders' desired total returns and the Bank's desired credit rating. This integration helps to ensure that the risks assumed are consistent with our desired risk levels, or risk appetite.



Two processes govern the integrated management of risk:

- we employ a change management framework that outlines processes to ensure that changes to the Bank's risk profile associated with new business initiatives are correctly identified, are consistent with the Bank's strategic objective and receive appropriate approvals before implementation; and
- we use a capital management process to ensure that risks arising from business activities are captured in the economic capital process (Capital at Risk) and are consistent with the Bank's strategic objective.

Change Management

The change management framework is an enterprise-wide set of standards that support assessment and approval of significant change initiatives, both in terms of quantitative measures, such as capital required, and in terms of qualitative impact. Significant change initiatives include any new business, investment or divestiture, any new strategic alliance, joint venture, outsourcing arrangement, organizational change or re-design, and any initiative that will result in significant change to the risk profile of a line of business, Bank operating group or the Bank as a whole.

The change management framework establishes the overall governance of change management across the enterprise and improves the comparability among numerous strategic initiatives. By employing standardized templates, we are able to simplify and clarify the preparation of a business case for sponsors, and shorten the cycle times for review of the business case by stakeholders and decision-makers.

The Risk Management Group facilitates the change management process by providing governance, independent oversight and consultation related to identification, qualification and quantification of key risks, risk mitigants and critical success factors. As well, this group is responsible for regular reporting of major initiatives, and for attesting on a quarterly basis to the Chief Executive Officer and the Risk Review Committee of the Board that the framework continues to support the reliable and comprehensive assessment of major initiatives across the Bank.

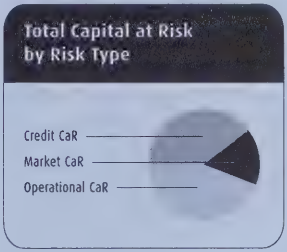
Capital at Risk

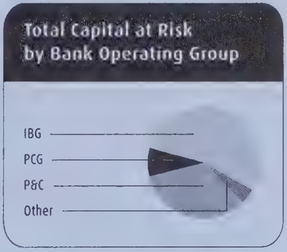
Capital at Risk (CaR) aggregates credit, market and operational risks into a single measure of risk. This measure provides an integrated assessment of risk that can be compared across business activities and risk types.

CaR is the foundation for risk-based capital management as it allows the lines of business to be held accountable for risks taken relative to returns earned. CaR indicates the magnitude of losses that could occur if adverse situations arise and expresses the potential cost of this risk in terms of capital. As a measure of the capital required to support the activities of a line of business, CaR is an integral part of the lines of business performance measures, where it is embedded in the costs of capital charged to the lines.

Because it is an integrated and comparative measure that provides information about both risk and its potential capital cost, CaR provides a useful basis for the assessment of the potential of a strategy to create value. By using a risk-adjusted return on capital, selection of business alternatives at the Bank is based on a comparison of a strategy's contribution to shareholder value.

The significant risks taken by the Bank are reflected in the charts showing CaR measures by risk type and by Bank operating group.





Enhancements to the Integrated Risk Management Framework

Two initiatives are presently under development to further enhance our management of integrated risk.

In January 2001, the Basel Committee on Banking Supervision released its second consultative paper and supporting documents on the New Basel Capital Accord, which will redefine the basis for determining the amount of regulatory capital required by banks that are internationally active. The final version of the New Accord is now scheduled for release in mid-2002, and the implementation date has been extended one year to 2005.

A significant goal of the New Accord is to better align regulatory capital requirements with banks' internal measures of economic capital by providing a more risk-sensitive framework for credit risk, and by introducing an explicit operational risk capital requirement. The New Accord provides three capital calculation methodologies for each of credit risk and operational risk, representing increasing levels of risk sensitivity and model sophistication. Banks must meet minimum requirements and must have the approval of their national regulator to use the more sophisticated approaches. Banks with more sophisticated risk management practices currently employing advanced methodologies for calculating economic capital will be in the best position to receive approval to apply their own advanced approaches. This will ensure regulatory capital requirements that best match economic capital, thereby permitting more effective use of capital.

We welcome the New Accord, as it is more reflective of the true economic risk, which is consistent with our approach to risk measurement practices. During fiscal 2001, Bank of Montreal was actively involved in providing feedback to regulators to help shape the New Accord and ensure it appropriately reflects the needs of the Bank and of the Canadian financial services industry. This work will continue in fiscal 2002. We also carried out substantial work in assessing the impact and costs/benefits of the proposed options. This analysis will continue through fiscal 2002 and will not be complete until after the final version of the New Accord is released. In early 2001, we established an executive steering committee and project management office which, together with the lines of business, are currently working to refine existing risk and capital management processes and IT systems to qualify the Bank for the most beneficial approaches. We have already established a solid base to meet the qualification criteria:

- we use sophisticated economic capital at risk techniques to measure risk and to determine risk-adjusted profitability on a line of business basis;
- economic capital allocation currently includes operational risk assessment by business line; and
- advanced risk management practices have been incorporated in our various lending activities for some time now.

Another initiative underway to enhance the management of integrated risk is the development of a Bank-wide scenario risk analysis capability. This is in addition to the stress testing analysis currently employed in many of the Bank's units for the management of credit, market, liquidity and operational risk. It is anticipated that this capability will enable the testing of extreme, but possible, political, economic, market and operational events and scenarios in order to ascertain their potential impacts on the Bank's operations.

The remainder of this section describes how we manage specific risks, including their measurement, limits, processes and models, to achieve a risk/return balance. A discussion of our performance against these measures is also included.

Credit Risk

The credit risk management framework at the Bank consists of comprehensive governance, proven credit operating practices and a rigorous provisioning process.

Credit risk governance is applied enterprise-wide and encompasses all aspects of prudent credit granting and credit management. There are policies governing the philosophy, principles and conduct of credit granting activities, the credit granting process, lender qualification standards, the problem account management process, and security valuation and exposure diversification processes. Oversight of credit risk management is provided by the Risk Review Committee of the Board of Directors, the Chief Executive Officer's Counterparty Risk Council and the independent Risk Management Group.

The credit granting process involves the use of skilled and qualified professional lenders, clear delegation of decision-making authority, personal accountability, individual borrower limits and dynamic portfolio management. Credit decisions are made on a case-by-case basis at the management level appropriate to the size and riskiness of the transaction and are based on the client's creditworthiness, the available collateral and the transaction's consistency with the Bank's strategic objective.

Operating practices include regular monitoring of credit risk exposures, regular review on an account and portfolio basis, and reporting to the Chief Executive Officer's Counterparty Risk Council and to the Risk Review Committee of the Board of Directors. The Corporate Audit unit regularly reviews management processes to ensure that established credit policies are followed. The Credit Review unit of the Risk Management Group undertakes ongoing reviews of significant and higher-risk lending transactions.

Our provisioning approach embodies disciplined loan loss management and evaluation. The prompt identification of problem loans is a key risk management objective, and all material cases are transferred to a group of professionals experienced in managing these accounts. All problem accounts are subject to quarterly or more frequent reviews.

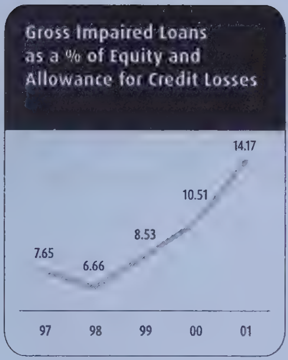
Credit risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honour another predetermined financial obligation.

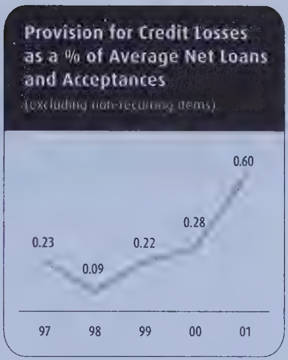
Measurement

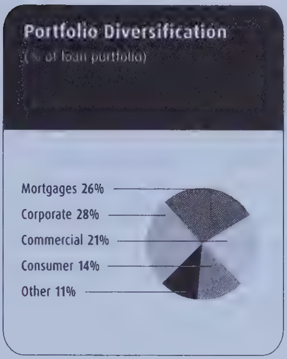
We employ two primary credit risk measures:

- Gross impaired loans and acceptances as a percentage of equity and allowance for credit losses is used to measure the financial condition of the portfolio by comparing the level of impaired loans to the level of capital and reserves available to absorb loan losses. It is calculated by dividing the total gross impaired loans balance by the capital and reserves available to absorb losses on the loans.
- Provision for credit losses as a percentage of average net loans and acceptances represents the level of provisions necessary to cover losses in the lending portfolios. This ratio is calculated by dividing the annual provision for credit losses by the average balance of net loans and acceptances, including securities purchased under resale agreements.

Excluding non-recurring items, the provision for credit losses for 2001 was $880 million or 0.60% of average net loans and acceptances, up from $400 million or 0.28% in 2000. The higher losses reflect the downturn in economic conditions and the credit environment. Our regular comprehensive quarterly review of lending portfolios resulted in a prudent addition being made to the provision at the end of the year. The increased provision reflects the recessionary conditions prevailing in the United States, particularly in the Midwest manufacturing sector, and the more recent weakening in Canada. The provision was determined after also considering the lack of access to capital markets for many companies in a number of sectors and the reduction of refinancing, restructuring and work-out options for many firms.







The Bank maintains a general allowance in order to cover any impairment in the existing portfolio that cannot yet be associated with specific loans. At all times throughout the economic cycle, the sum of specific and general allowances must be sufficient to reduce the book value of loans to their reasonably estimated net present value.

A number of factors are considered when determining the general allowance. A statistical analysis of past performance is undertaken to derive the mean (Expected Loss) and volatility (Unexpected Loss) of loss experience. This analysis calculates historical average losses for each homogeneous portfolio segment (e.g., mortgages), while other models estimate loss for portfolios of corporate loans and investments that can be referenced to market data. In addition, the level of allowance already in place and management's professional judgement regarding portfolio quality, business mix and economic as well as credit market conditions are also considered.

Normally, the general allowance would increase during a strengthening economy, as competition results in reduced availability of lending opportunities with the most preferred attributes. Thus, increased loss probability arises even though this might not be fully discernible in individual loans in the portfolio. The general allowance would be expected to be drawn down, as required, during weaker phases of the economic cycle, when loan-by-loan specific allowances would be established as the probability of loss in individual loans becomes ascertainable.

The general allowance for credit losses was increased by $100 million during the year through a non-recurring charge to net income and amounted to $1,180 million, up from $1,080 million in 2000. The allowance represents 87 basis points of risk-weighted assets. The general allowance is considered sufficient and has been determined on a basis that is consistent with the Bank's policy on establishing loan loss provisions.

Notes 4 and 5 to the financial statements on pages 64 and 65 and Tables 10 to 18 on pages 48 to 51 provide details on the Bank's loan portfolio, impaired loans and provisions and allowances for credit losses.

As part of the strategic objective of the Bank, we have a well-diversified portfolio, mainly focused in the strong economies of North America, which comprises lending relationships with millions of clients, the majority of whom are consumers and small to medium-sized businesses. The portfolio also continues to be free from undue concentrations in country exposure and type of lending.

Limits

The Bank's credit risk governance processes ensure that an acceptable level of credit risk diversification is maintained on an ongoing basis. Limits have been established for country exposure, industry and product exposure, single name exposure and transaction-specific exposure. These limits are reviewed at least annually by the Risk Review Committee of the Board of Directors. The Bank's credit risk governance structure helps to ensure that limits are observed and that any excesses are identified promptly, reported appropriately and resolved by management.

Processes and Models

For large corporate credit transactions, we use processes and models to assess the impact of the correlation of risks before authorizing new exposure.

Expected loss (EL) for large individual transactions and for the portfolio as a whole is calculated to establish a prudent annual forecast of loan loss provisions and an appropriate level of general allowance for credit losses. Measures and assumptions underlying EL calculations are supported by portfolio monitoring, historical experience, market data and proxies for market data, and modelling of economic and business-specific events. The estimate relies upon:

- management's judgement;
- the probabilities of default;
- the amounts of outstanding exposures at the time of default;
- the differences between the book value and market value or realizable value of loans, if default occurred; and
- the effects of economic and industry cycles on asset quality and loan values.

EL and historical credit risk information are inputs that determine the Capital at Risk for each of the relevant lines of business. Credit Capital at Risk measures are based on a confidence level of 99.95% and a holding period of one year.

Market Risk

The Bank incurs market risk in its trading and underwriting activities, in connection with the management of its assets and liabilities (structural market risk) and as a result of the investments it makes.

As part of our enterprise-wide risk management framework, we have a market risk management framework of comprehensive governance and management processes surrounding market risk-taking activities. The framework includes:

- oversight by senior governance committees through to the Risk Review Committee of the Board of Directors;
- an independent market risk oversight function within the Risk Management Group;
- effective processes to measure market risks and value positions;
- a well-developed limit-setting and monitoring process;
- strong controls over processes and models used; and
- a framework of scenario and stress tests for worst-case events.

In addition, we monitor developments in industry practices relating to the management of market risk to incorporate improvements where appropriate.

Overall, for regulatory capital purposes as required by the Bank's regulator, the Office of the Superintendent of Financial Institutions, and, consistent with the rules of the Bank for International Settlements (BIS), the Bank maintained a "minimum capital requirement for market risk" of $471 million as at October 31, 2001, up from $372 million at the end of 2000.

Market Value Exposure (MVE) is a measure of the adverse impact of potential changes in market variables on the market value of the Bank's assets and liabilities, measured at a specific confidence level.

Earnings Volatility (EV) is a measure of the adverse impact of potential changes in market variables on projected 12-month after-tax net income, measured at a specific confidence level.

Value at Risk (VaR) is a measure of the adverse impact of potential changes in market variables on the market value of a portfolio, over a specific time period. The VaR measure applies to different risk categories (interest rate, currency, equity and commodity prices). VaR is usually measured at a 99% confidence level.

The Risk Review Committee of the Board of Directors approves limits for Market Value Exposure (MVE) and Earnings Volatility (EV) within which market risk activities are conducted. The most important risk measurement methodologies are Value at Risk (VaR) for MVE purposes and 12-month Earnings Volatility (EV). The Bank's aggregate market value and earnings volatility exposures at October 31, 2001 are summarized in the following table.

Aggregate Market Value and Earnings Volatility Exposures

Exposure as at October 31 (After-tax Canadian equivalent) ($ millions)*	Market value exposure 2001	Market value exposure 2000	12-month earnings volatility 2001	12-month earnings volatility 2000
Structural balance sheet	**233.2**	268.0	**79.6**	85.1
Trading and underwriting	**13.9**	14.0	**17.5**	19.9
Total	**247.1**	282.0	**97.1**	105.0

*Measured at a 99% confidence level

Market risk is the risk of a negative impact on the Bank's balance sheet and income statement resulting from adverse changes in the value of financial instruments as a result of changes in interest rates, foreign exchange rates, equity or commodity prices and credit spreads.

The Bank's trading and underwriting activities include portfolios that are marked to market daily, as well as some portfolios (such as money market) that are subject to accrual accounting rules under generally accepted accounting principles. For these activities, VaR measures the magnitude of the Bank's market risk. This measure calculates the maximum likely loss from portfolios for a holding period of one day at a 99% confidence level, that is, 99 days out of 100.

The VaR models determine the Capital at Risk for each of the lines of business and calculate regulatory capital under the standards of the BIS for all classes of market risk except equities, for which we use the prescribed BIS approach. For capital calculation purposes, longer holding periods and/or higher confidence levels are used than are employed for day-to-day risk management. The same or similar models used to determine VaR exposures are used to determine EV exposures. Market risk exposures to trading and underwriting activities are summarized in the following table.

Total Trading and Underwriting VaR Summary

For the period from November 1, 2000 to October 31, 2001 (Pre-tax Canadian equivalent) ($ millions)*	Year-end	Average	High	Low
Interest rate	15.8	15.2	21.7	11.5
Foreign exchange	7.0	5.0	10.5	1.8
Commodity	2.0	1.3	2.7	0.6
Equity	4.8	5.2	15.2	2.5
Correlation effect	(5.6)	(4.7)	(6.9)	(2.2)
Total	24.0	22.0	na	na

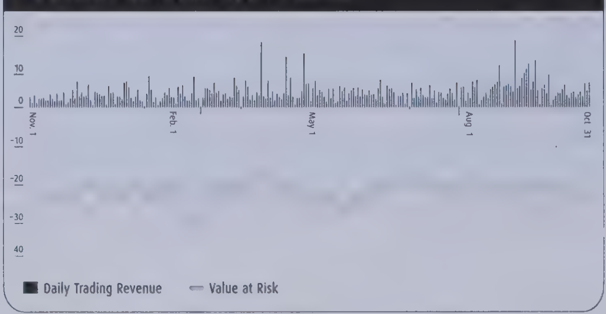
*One-day measure using 99% confidence level.

na – not applicable

In determining VaR, we take only partial account of the correlation and offsets that may exist between certain portfolios and classes of risk, such as equity prices and interest rates. A more conservative measure of market risk is therefore calculated than would otherwise be the case. The Bank has not experienced a loss this year that exceeded the overall VaR measure in the trading and underwriting portfolios, as can be seen in the diagram below.

Daily Trading Revenue and Value at Risk

For November 1, 2000 to October 31, 2001 ($ millions)



In addition to VaR, we also measure exposure to concentrations of market risk, such as changes in particular interest rates, foreign exchange rates, equity or commodity prices, credit spreads and their related volatilities.

Effective controls over the revaluation of trading and underwriting portfolios and the determination of daily revenue from these activities enable us to monitor the revenue generated by each of the lines of business in relation to their business strategies and their level of market risk. The average daily revenue from trading and underwriting activities for 2001 was $3.6 million. The daily distribution can be seen in the diagram below. Trading revenues include amounts from all trading and underwriting activities, whether accounted for on a mark-to-market basis or accrual basis, and also include certain fees and commissions directly related to those activities.

Frequency Distribution of Daily Trading Revenue
November 1, 2000 to October 31, 2001

For investments and investment portfolios, we have established MVE and EV measures using 10-day holding periods, as well as holding periods that best reflect estimates of the time necessary to liquidate positions. In addition, where appropriate, specific measures are used for the credit-related risk and other concentrations of risk embedded in those positions.

Structural market risk arises primarily from retail and commercial asset and liability interest rate mismatches and embedded options, and from foreign currency translation risk that affects net income. Structural MVE and EV measures reflect a three-month holding period for Canadian dollar balance sheet items and a two-month holding period for U.S. balance sheet items. In addition to structural MVE and EV risk measures, we also use interest rate gap analysis (see Table 19 on page 52), simulation modelling and sensitivity analysis to measure structural interest rate risk. Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below. This sensitivity analysis is performed and disclosed by many financial institutions and facilitates comparisons with our peers.

Limits

Comprehensive market risk limits have been set for each line of business and Bank operating group, and for the Bank as a whole. The limits govern both the magnitude of risk (expressed in MVE and EV terms) and specific concentrations of risk. In addition, there are loss limits that provide senior management with an early warning to effectively address potential loss situations. These limits are set in relation to the particular strategies of each line of business, the extent of its customer-driven business and its revenue prospects. The market risk governance structure helps ensure that limits are observed and that any breach of these limits is promptly and effectively addressed.

Limits are reviewed by the Risk Review Committee of the Board of Directors at least annually, and anticipate a wide range of interest rate environments at a 99% confidence level. This review takes into consideration the Bank's risk appetite and risk exposure. The market risk limits approved by the Risk Review Committee of the Board of Directors were not exceeded during the year.

Processes and Models

Processes and models are employed to measure and value our portfolio exposures and to calculate the related market risk exposure. For trading and underwriting activities, the determination of daily net trading revenue also relies on these models and processes. We have strong controls over the development, implementation and application of these processes and models. In addition, models are subject to a periodic independent model risk vetting process and, where appropriate, additional testing and analysis. Such testing seeks to determine those inputs or assumptions to which a model is most sensitive and those that are the most likely to vary or create unusual changes to the model's output. This provides an understanding of the range of possible outputs that can be derived from the model. We monitor the application of models to ensure that they are appropriate to the particular portfolio to which they are applied, and we take corrective action, including making adjustments to the determination of daily net trading revenues, when model limitations are identified.

Scenario and Stress Testing

The models employed to measure market risks are effective at measuring such risks under normal market conditions. In addition, we perform scenario analysis and stress testing to determine the impact of unusual and/or unexpected market changes to our portfolios. We use a comprehensive set of such scenarios and stress tests, and the results are reported to senior management on a regular basis. Exposures are required to be managed within these pre-set limits.

Initiatives Related to Developments in Best Practice

A principal element of the Bank's initiatives to further enhance our management of market risk is building appropriate technology and processes to support:

- our ongoing risk measurement;
- our reporting processes;
- the management of the interrelationships between market risk and credit risk; and
- the management of the dynamic linkage between market risk measures and the allocation of Capital at Risk.

Structural Interest Rate Sensitivity

(After-tax Canadian equivalent) ($ millions)	As at October 31, 2001		As at October 31, 2000	
	100 basis point increase	**100 basis point decrease**	100 basis point increase	100 basis point decrease
Earnings at risk over the next 12 months	**$ 9.4**	**$(20.5)**	$ (4.4)	$ (15.2)
Economic value exposure	**$(147.0)**	**$ 64.2**	$(179.0)	$ 213.8

Exposures are represented by negative amounts and benefits are represented by positive amounts.

See also the glossary on page 90

Liquidity and Funding Risk

Managing liquidity and funding risk is a key component of our enterprise-wide risk management framework, and is essential to maintaining depositor confidence in the Bank and to maintaining stability in the Bank's earnings.

Our liquidity and funding management framework includes:

- the Liquidity and Funding Management Committee, a subcommittee of the Risk Management Committee, which is responsible for oversight of liquidity and funding management, including strategy development, governance, risk measurement and contingency planning;
- a Board-approved limit structure to support active liquidity and funding risk management; and
- effective processes and models to monitor and manage liquidity and funding risk.

Liquidity and funding risk is the risk of being unable to meet financial commitments under any circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis. Financial commitments include liabilities to depositors and suppliers, and lending and investment commitments.

Measurement

There are two key measures we use to manage liquidity and funding risk.

The first key measure is the cash and securities-to-total assets ratio, which is an indicator of the liquidity of assets. The ratio represents deposits with other banks, other cash resources and securities as a percentage of total assets.

The Bank's cash and securities-to-total assets ratio at October 31, 2001 was 23.1%, down from 27.8% at October 31, 2000. Liquid assets totalled $55.3 billion at the end of the year, down from $65.0 billion in 2000. The decrease was primarily attributable to a reduction in trading and investment securities, as explained on page 13. It is expected that the Bank's liquidity ratio over the course of 2002 will approximate the ratio at the end of 2001.

In the ordinary course of business, a portion of cash resources and securities is pledged as collateral to support trading activities and participation in clearing and payment systems, both domestically and abroad. As at October 31, 2001, $24.0 billion of cash resources and securities had been pledged, up from $21.8 billion pledged as at October 31, 2000. Additional information on cash resources and securities can be found in Table 5 on page 43.

The second key measure used in managing liquidity and funding risk is the core deposits-to-total deposits ratio, which measures the stability of deposits. This ratio represents total deposits less deposits greater than $100,000 payable in source currency on a fixed date (core deposits), as a percentage of total deposits.

Our core deposits-to-total deposits ratio at October 31, 2001 improved to 60.0%, from 56.8% at October 31, 2000. The increase in the ratio was attributable to higher core deposits and lower total deposits. Core deposits increased $3.5 billion from October 31, 2000 to $92.5 billion at October 31, 2001, while total deposits decreased $2.4 billion from October 31, 2000 to $154.3 billion at October 31, 2001. The increase in core deposits resulted from growth in deposits from individuals. The decrease in total deposits was due to reduced wholesale borrowings, which fund trading and investment securities.

Our large, stable base of core deposits provides a strong and secure source of funding in both the Canadian and U.S. dollar markets. These deposits, along with a strong capital base, reduce reliance on other more volatile sources of funds.

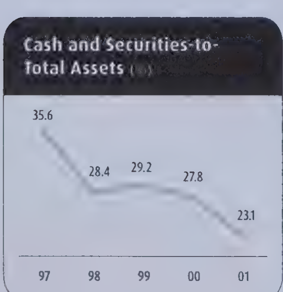
Wholesale borrowings are largely short-term in nature and primarily support trading and underwriting assets and investment securities. Wholesale funding activities are performed by professional teams accessing major financial markets worldwide.

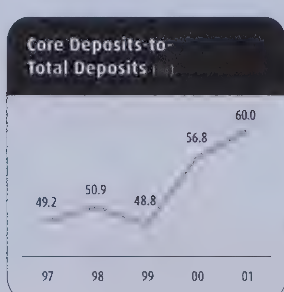
Limits

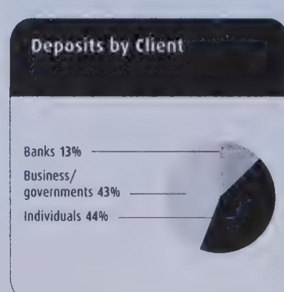
We continuously monitor liquidity and funding risk and actively manage the balance sheet to minimize this risk. Management establishes minimum liquid asset holding requirements, together with limits for liability diversification, credit commitments and liquid asset pledging. Deposits are diversified by customer, type, market, maturity term, currency and geography. These limits are approved by the Risk Review Committee of the Board.

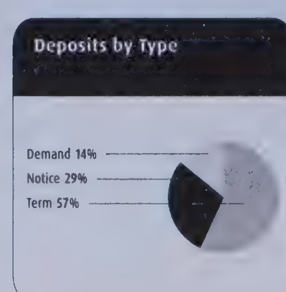
Processes and Models

We manage liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress. Processes and models are used to project liquid asset holding requirements, funding capacity and financial commitments based on expected and stressed economic, market, political and enterprise-specific operating conditions. In addition, we continuously track market and economic variables to monitor for changing risk conditions.









Operational Risk

We manage operational risk through a comprehensive governance framework and effective infrastructure and controls. A detailed framework integrates the specialized knowledge of the lines of business personnel, Risk Management Group expertise and strong support functions.

Operational risk is inherent in all business activities, and the management of this risk is important to the achievement of the Bank's strategic objective. While operational risk can never be eliminated, it can be managed and mitigated, and in some cases insured against, to preserve and to enhance shareholder value.

Operational risk is composed of:
- Operations risks, which are controlled through regular daily functions and are managed through internal procedures and monitoring mechanisms. These risks include physical and logical security, transaction processing, operations control, technology and systems, and outsourcing risks.
- Business/event risks, which include underlying, structural and external risks that can have a material impact on the Bank. These risks include strategic, image and reputation, taxation, accounting and financial management, legal, regulatory requirements, and human resources risks, as well as risks resulting from the use of complex pricing or valuation models.

The Bank's governance structure includes the Operational Risk Committee, a sub-committee of the Risk Management Committee. It provides:
- a formalized decision-making mechanism for operational risk issues;
- a forum to discuss cross-group impacts of significant risks;
- approval of new policies and changes to existing policies; and
- review and approval of risk control self-assessments, operational risk quantification and associated capital allocation results.

The Risk Management Group reports on significant enterprise issues and operational events to the Chief Executive Officer and the Risk Review Committee of the Board. Internal Audit also provides regular reports on the effectiveness of internal controls to the Chief Executive Officer and the Audit Committee of the Board of Directors. There is ongoing monitoring and reporting on the effectiveness of our operational risk management processes. In addition to enterprise-wide risk management practices, we have established business continuity processes and event management processes.

Measurement

Operational risk management processes are focused on identification and measurement of operational risk and are linked to the Capital at Risk measures. Frequency and severity measures are developed for operational risks identified for each line of business. Historical loss data is used, where available, for calculating frequency and severity of events. Where loss data is not available or is limited, loss scenarios are developed in conjunction with line of business management, utilizing external loss data if applicable. To ensure that all operational risks to which a line of business is exposed are adequately captured and appropriately quantified, specialized functions such as Finance, Taxation, Legal, Compliance, Human Resources and Operations and Technology are also involved in the measurement process.

No material operational risk losses occurred in 2001 or 2000. Although there is no assurance that the Bank will not suffer material operational risk losses in the future, the approach developed for operational risk capital is designed to ensure that the Bank can absorb such losses if they occur.

Processes and Models

Our strategy for managing operational risk is to maximize our ability to measure such risks through a well-defined and consistent methodology that leverages change management, as well as risk and control self-assessment processes where appropriate. We closely monitor industry developments to ensure we remain competitive with appropriate industry best practices.

A tailored process and model are used to determine the operational risks and the Capital at Risk for each line of business. The frequency and severity measures developed within the operational risk process for identification and measurement provide input for the model. For capital calculation purposes, confidence levels and holding periods used are consistent with the approaches used for credit and market risk.

Our operational risk management program, with its linkages to the Capital at Risk process, has the flexibility to accommodate the forthcoming Basel Committee on Banking Supervision Consultative Document requirements for operational risk.

Enterprise-Wide Capital Management

Highlights

- Our Tier 1 Capital Ratio of 8.15% remained above our minimum target of 8.0%.
- We are managing our balance sheet in a disciplined fashion, with risk-weighted assets increasing by a modest $1.4 billion during the year, in line with our target.
- We are targeting to maintain a Tier 1 Capital Ratio of at least 8.0% in 2002, with ongoing controlled growth in risk-weighted assets.
- Under our recently completed share repurchase program, we repurchased 52 million common shares for cancellation at a cost of $2 billion, which met our capital management needs.
- During the year, we issued two series of BMO Capital Trust Securities (BMO BOaTS™) of $400 million each. These units incur tax-deductible interest but qualify as Innovative Tier 1 capital for regulatory purposes to provide us with a cost-effective means of satisfying our capital requirements.

Objective

Our Capital Management Framework objective is to maintain an optimum level of capital by: being consistently well-capitalized to meet our target regulatory ratios and maintain appropriate credit ratings; utilizing internal assessments of risk measured by our Capital at Risk process as discussed on page 17; and meeting our operating group business strategies in order to build long-term shareholder value.

Strategy

We seek to continuously improve the utilization of our capital base in two primary ways: we focus on balance sheet management to ensure that resources are deployed to high-return and/or strategic growth activities; and we issue or redeem capital instruments to achieve the most cost-effective capital structure possible.

Dividends are generally increased in line with long-term trends in earnings per share growth, while ensuring that sufficient profits are retained to support anticipated business growth, fund strategic investments and provide continued support for depositors.

Performance Review

The elements affecting the Bank's capital ratios are outlined in Tables 20 and 21 on page 53. Tier 1 capital decreased during the year, most significantly in the fourth quarter, due to the strengthening of our provision for credit losses and our share repurchase program, which returned excess capital to shareholders. We intend to maintain our capital ratios at target levels in future periods while continuing to provide adequate internal capital to support our strategic objectives.

In January 2001, the Bank declared a 100% stock dividend, effectively achieving a two-for-one split on the Bank's common shares and making the shares more accessible for retail investors. The quarterly dividend declared on common shares was $0.28 for each quarter of 2001, which resulted in a payout ratio of 41%. This is in line with the Bank's policy of maintaining a dividend payout ratio of 30% to 40%.

On October 29, 2001, Standard & Poor's announced that it had placed the ratings of the Bank on "CreditWatch with negative implications". S&P indicated that this reflects concerns over the Bank's credit quality and the outlook for profitability improvement in the medium term. If the ratings of the Bank are downgraded from AA– to A+, which is the average S&P rating of our North American peer group, certain funding costs and sundry revenues would likely be affected. The annual impact on earnings is estimated to be less than $0.05 per share. The Bank's costs of preferred and common equity might also be expected to rise slightly.

2000 Compared with 1999

In 2000, our Tier 1 Capital Ratio increased to 8.83% from 7.72% in 1999, due to increases in our regulatory capital, funded primarily by operating earnings, combined with a decrease in risk-weighted assets due to our ongoing balance sheet management.

The **Tier 1 Capital Ratio** is our primary measure of capital adequacy. It is defined as Tier 1 capital divided by risk-weighted assets.

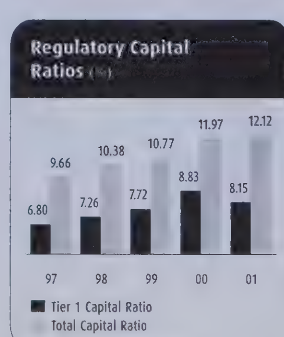
Approach

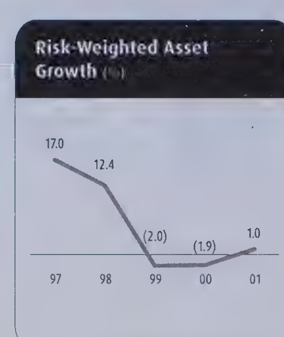
Our disciplined approach to balance sheet management includes setting limits and the ongoing monitoring of adjusted and risk-weighted assets. At the consolidated Bank level, our capital supports our risk appetite, subject to regulatory and legal requirements. At the line of business level, capital is allocated based on the assessment and measurement of Capital at Risk and is included in line of business performance measures. This ensures an appropriate risk/return relationship to meet or exceed established total Bank targets. We use several measures for monitoring regulatory capital requirements, including the Tier 1 Capital Ratio, the Total Capital Ratio and the assets-to-capital multiple. Capital requirements are also monitored from a rating agency perspective.

Sources and Utilization of Tier 1 Capital

($ millions, except as noted)	2001	2000
Beginning of year	**11,864**	10,578
Net income	**1,471**	1,857
Dividends	**(648)**	(631)
Goodwill	**(351)**	(17)
Issuance of common shares	**556**	78
Repurchase of common shares	**(2,031)**	(500)
Translation and other	**205**	499
End of year	**11,066**	11,864

	Risk-weighted assets	Tier 1 Capital Ratio
October 31, 2000	134,360	8.83%
Increases/(Decreases)		
Personal and Commercial Client Group	3,438	
Private Client Group	(435)	
Investment Banking Group	(6,131)	
Emfisys and Corporate Support	4,536	
October 31, 2001	135,768	8.15%





Review of Operating Groups Performance

This section includes an analysis of the financial results of each of our operating groups, together with descriptions of their businesses, objectives, accomplishments, challenges and outlooks for 2002. A separate analysis of Harris Bank, the financial results of which are incorporated within each of the operating groups, is also provided.

Periodically, certain business lines and units within the business lines are transferred between client groups to more closely align the Bank's organizational structure and its strategic priorities. All comparative figures are restated to give effect to the transfers.

During the year, the results of the fixed income securities of Harris Bank, formerly reported entirely in the Investment Banking Group, were reallocated to each of the operating groups, aligning the operating groups' longer-term liabilities with the term assets they fund. The net interest expense that remains unallocated to the lines of business in the Bank's internal transfer pricing process is now reflected within Emfisys and Corporate Support, rather than in the Personal and Commercial Client Group, as was the case last year. In addition, most of our e-businesses, including North American Cash Management, as well as the Bank's investments in Bancomer, were transferred from the Personal and Commercial Client Group to Emfisys and Corporate Support.

Personal and Commercial Client Group

Net income was $804 million in 2001, a decrease of $86 million from 2000. Excluding non-recurring items that increased net income $9 million in 2001 and $91 million in 2000, net income was $795 million, or $4 million less than in 2000, as further discussed on page 26.

Private Client Group

Net income was $121 million in 2001, a decline of $69 million from 2000, as further discussed on page 30.

Investment Banking Group

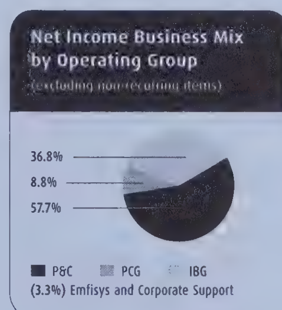
Net income was $402 million in 2001, a decrease of $201 million from 2000. Excluding non-recurring items, net income of $507 million declined $96 million from last year, as further discussed on page 33.

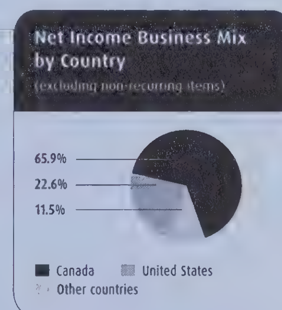
Emfisys and Corporate Support

Net income was $144 million in 2001, a decrease of $30 million from 2000. Excluding non-recurring items, there was a net loss of $45 million, a deterioration of $125 million from last year, as further discussed on page 37.

Harris Bank

On a U.S. dollar/U.S. GAAP basis, Harris Bank net income was $201 million in 2001, a decrease of $67 million from 2000. Excluding the effects of gains on the sales of businesses in both years and a fourth-quarter increase in the loan loss provision in recognition of a more uncertain economy, net income increased $15 million, as further discussed on page 38.





Net Income Business Mix and Average Assets by Operating Group ($ millions, except as noted)

For the year ended October 31	Personal and Commercial Client Group 2001	2000	1999	Private Client Group 2001	2000	1999	Investment Banking Group 2001	2000	1999	Emfisys and Corporate Support 2001	2000	1999	Total Consolidated 2001	2000	1999
Net income															
Canada	**647**	748	529	**106**	161	103	**123**	261	217	**(89)**	(48)	(191)	**787**	1,122	658
United States	**98**	87	79	**10**	29	32	**195**	271	332	**(50)**	117	(8)	**253**	504	435
Other countries	**59**	55	41	**5**	–	6	**84**	71	94	**283**	105	148	**431**	231	289
Total	**804**	890	649	**121**	190	141	**402**	603	643	**144**	174	(51)	**1,471**	1,857	1,382
Business mix (%)	**54.7**	47.9	47.0	**8.2**	10.2	10.2	**27.3**	32.5	46.5	**9.8**	9.4	(3.7)	**100.0**	100.0	100.0
Excluding non-recurring items	**795**	799	649	**121**	190	141	**507**	603	643	**(45)**	80	44	**1,378**	1,672	1,477
Business mix (%)	**57.7**	47.8	43.9	**8.8**	11.4	9.5	**36.8**	36.0	43.5	**(3.3)**	4.8	3.1	**100.0**	100.0	100.0
Average assets															
Canada	**80,799**	78,905	73,942	**2,145**	1,838	1,344	**59,848**	52,909	44,555	**(3,399)**	(3,517)	(3,682)	**139,393**	130,135	116,159
United States	**14,874**	12,541	12,143	**3,149**	2,373	1,802	**61,508**	60,929	57,062	**3,108**	1,959	2,431	**82,639**	77,802	73,438
Other countries	**236**	234	161	**51**	80	112	**20,329**	25,729	35,838	**600**	964	1,006	**21,216**	27,007	37,117
Total	**95,909**	91,680	86,246	**5,345**	4,291	3,258	**141,685**	139,567	137,455	**309**	(594)	(245)	**243,248**	234,944	226,714

Basis of presentation of operating results

Expenses are matched against the revenues to which they relate. Indirect expenses, such as overhead expenses and any revenue that may be associated thereto, are allocated to the operating groups using appropriate allocation formulas applied on a consistent basis. For each currency, the net income effect of funds transferred from any group with a surplus to any group with a shortfall is at market rates for the currency and appropriate term. Segmentation of assets by geographic region is based upon the geographic location of the unit responsible for managing the related assets, liabilities, revenues and expenses.

Personal and Commercial Client Group

Group Description

The Personal and Commercial Client Group (P&C) is committed to providing integrated, seamless, high-quality service to seven million personal and commercial customers across Canada and the United States. P&C offers a full range of products and services through 16,500 highly skilled financial service providers in more than 1,100 Bank of Montreal and Harris Bank branches, as well as directly through bmo.com, harrisbank.com, BMO mbanx Direct and a network of more than 2,200 automated banking machines.

Group Strategy

We will earn the right to be the primary financial services provider across all segments by:

- ensuring fully satisfying transactional and after-sales service; and
- delivering a competitively superior buying experience.

2001 Group Objectives and Accomplishments

- **Pursue an integrated approach to branch and electronic banking.**
  - Continued to offer customers a coordinated, multi-channel approach with a full array of choices, from branch banking to wireless. Direct banking volumes grew 41% from last year to 193 million transactions. BMO mbanx Direct handled over seven million calls and originated 24% of our loan and mortgage volume.
- **Pursue an integrated, strategic approach to the development and marketing of personal banking products.**
  - Successfully launched several new products, including the Premium Rate Savings account.
  - Expanded our mortgage specialist sales force and achieved strong growth in originations.
- **Provide more customized service and otherwise aggressively target the high-growth and underserved small business banking market.**
  - Introduced differentiated service offerings for our business clients through BMO mbanx Direct for Business (100,000 new customers) and our AIR MILES For Business®4 program. Small Business Banking also introduced a new dairy farm lending program, a new succession planning financing offer and a new client relationship management tool for sales staff. Market share increased to 18.9% of loans below $5 million and customer loyalty scores increased 200 basis points.
- **Build on our leadership position in the key and relatively under-served commercial segment of companies with annual revenues of $100 million to $300 million.**
  - Commercial Banking built momentum in the new asset-based lending operation and expanded the cash management and deposit specialist unit. We continued to expand our core corporate finance unit, which contributed to Commercial Banking revenue growth of over 20% for the fourth successive year.
- **Through continuing expansion of technology, state-of-the-art risk management techniques and strict internal discipline, achieve asset growth while maintaining existing high asset quality standards.**
  - Maintained high levels of credit quality while asset growth continued. A group risk officer was appointed, having responsibility for credit risk, governance and compliance across the group.
- **In the United States, focus on a major opportunity to ramp up retail and small business lending by more than US$1 billion.**
  - Increased retail and small business lending by US$1 billion. The acquisition of First National Bank of Joliet added another US$562 million of loans.

2002 Group Objectives

- Increase our market share in the personal banking segment relative to our full-service competitors.
- Increase our market share in both small business and commercial banking businesses relative to our full-service competitors.
- Increase our customer loyalty scores in both personal and commercial banking segments.
- Continue replacement of our sales and marketing technology platform.
- Achieve asset growth while maintaining existing high asset quality standards through continuing development of technology, state-of-the-art risk management techniques and strict internal discipline.
- Continue to target a US$1 billion annual increase in retail and small business loans for the next several years, and assess strategic merger and acquisition opportunities in the United States.

Business Environment and Outlook

Weaker economic conditions in the United States did not spread to Canadian retail markets until the second half of the fiscal year. However, productivity of Canadian front-line sales staff lagged in the first six months due to the absorption of changes associated with the implementation of our longer-term growth strategies. While productivity improved in the third quarter of the year, the economy started to soften and interest rates declined, resulting in lower net interest margins and a stalling of improved performance. In both Canada and the United States, declining employment suggests the possibility of year-over-year declines in real GDP growth in the third and fourth quarters of 2001.

Heading into fiscal 2002, central banks are expected to continue their expansionary monetary policies to shore up financial markets and boost consumer confidence. GDP growth is expected to rebound in the second half of 2002 and interest rates may begin to rise. Year-over-year GDP growth is expected to be a moderate 1.5% to 2% in 2002. In the retail segment, moderate growth in consumer credit and deposit balances is expected, in the range of 3% to 4%. Demand for residential mortgages, fuelled by low interest rates, is expected to result in mortgage balance growth in the range of 3% to 4%. Commercial loan and deposit growth is expected to be in the range of 2% to 4%. Low interest rates, coupled with competitive market pricing, will likely result in further spread compression, particularly in retail and commercial deposit businesses.

Overall Business Strategy	Challenges in 2001	2001 Highlights	Business Outlook and Focus for 2002
Everyday Banking offers BMO® branded chequing and savings accounts to our personal banking customers in Canada, exclusively through P&C Banking distribution channels.			
Provide customers with a mix of savings and chequing accounts, service plans and other retail services designed to promote primary banking relationships and maximize the Bank's share of customer spending on banking services.	Large, rapid declines in central bank rates (300 basis points in fiscal 2001) resulted in equivalent declines in asset yields, while inelastic client rates resulted in significant spread compression.	• Launched a highly successful new savings account product, Premium Rate Savings, which led to the highest deposit balances in five years and significant opportunity to increase market share. • Implemented a successful AIR MILES campaign, introduced consolidated client statements and initiated a comprehensive product pricing change.	**Outlook** • We expect further declines in central bank rates and further spread compression. **Focus** • Continue to grow operating accounts and Premium Rate Savings balances to further increase market share.
Cardholder Services provides MasterCard brand credit card products and services to individuals in Canada and to corporate and commercial clients across North America.			
Retail Card Differentiate the MasterCard brand by tailoring card features to individual clients' needs. **Corporate Card** Provide web-enabled end-to-end business-to-business solutions, including a one-card solution for fleet, travel, entertainment and purchasing uses.	We continued to face significant competition in the Retail Card business. The industry focused on direct marketing that uses low teaser rates to attract new card applications and balance transfers.	**Retail Card** • Continued to rank as number one MasterCard issuer in Canada. • Ranked number three card issuer in Canada overall. • Introduced customized statement messaging at the account level. **Corporate Card** • Launched Procure2Pay™, a web-based procurement system for businesses. • Won the MasterCard portion of the federal government's procurement card contract.	**Outlook** • We anticipate double-digit growth in retail and corporate volumes with slightly lower growth in profit. **Focus** • Change our operating configuration from a product-based to a customer-based focus.
Commercial Banking provides mid-market clients with an advice and product suite that includes senior debt, asset-based lending, mezzanine and private equity financing, cash management, treasury, mergers and acquisitions and cross-border financing.			
Leverage the strength of our highly experienced professional bankers to achieve rapid penetration of the underserved mid-market while offering investment banking services. We hope to quickly develop a leadership role in this new market in Canada.	A slowing economy, particularly in the latter half of 2001, proved challenging. As a result of slowing P&C aggregate revenue growth, some spending for future growth was deferred.	• Achieved strong balance growth and double-digit revenue growth. • Added specialist sales staff to grow cash management and deposit business. • Established mid-market mergers and acquisitions unit, which will be formally launched next year. • Built sales momentum in our new asset-based lending unit.	**Outlook** • We expect double-digit growth so long as the economy recovers in the second half of fiscal 2002. **Focus** • Expand investment banking services to the mid-market segment.
Small Business Banking provides a full range of banking services in more than 500,000 relationships. Customers can access a wide array of products and services, including cash management and loans and deposits, through various channels including branches, the Internet and the telephone.			
Become Canada's first choice for small business banking by becoming the market leader in business growth and customer loyalty.	Deposit spreads were compressed due to lower interest rates, and loan growth was lacklustre due to a weakening economy, particularly in the second half of 2001.	• Implemented a sales and service relationship tool, Optimizer, that helps relationship managers better understand and meet client needs. • Registered over 100,000 clients for BMO mbanx Direct for Business. • Continued to grow core revenue and increased loan market share to 18.9%. • Introduced AIR MILES For Business, a Succession Planning offering and a lending program for dairy farms.	**Outlook** • A weaker economy and lower interest rates will likely create further pressure on spreads and limit opportunities for profitable loan growth. **Focus** • Become the business bank of choice for our customers.

Overall Business Strategy	Challenges in 2001	2001 Highlights	Business Outlook and Focus for 2002
The **Insurance** line of business offers payment and balance creditor insurance to loan, mortgage and MasterCard customers, and participates in the international reinsurance market.			
Penetrate underserved market segments in order to successfully leverage our core strengths and banking relationships. Develop innovative insurance solutions and enter the core life insurance markets in 2002. Increase penetration rate for creditor insurance products.	The need for expense control delayed the launch of the life insurance company to 2002.	• Established our life insurance company, BMO Life. • Hired all key members of the BMO Life management team.	**Outlook** • A weaker economy and slow loan growth will impact sales of creditor insurance. **Focus** • Capture a bigger share of customers' financial services spending through better penetration of insurance on lending products. • Establish BMO Life in both the mainstream and wealth management markets with the launch of term and universal life products.
Consumer Lending originates residential mortgages and consumer loans (instalment, revolving, automotive) and distributes them through direct channels (branch, cost centre, instore, Internet), indirect channels (brokers, auto dealers) and subsidiaries.			
Focus on our key customer relationships by delivering integrated lending products through our core channels in a streamlined environment. Continue to penetrate indirect markets through our existing subsidiaries and alliances.	Strong competition in mortgage pricing and loan markets put pressure on origination volumes and net interest margins. Broker-generated mortgages also grew significantly.	• Successfully launched new products and sales campaigns, with strong growth in originations. • Grew market share in automotive lending. • Expanded our mortgage specialists sales force and achieved strong growth in lines of credit.	**Outlook** • A weaker economy will likely create further pressure on spreads. **Focus** • Increase penetration of our existing customer base with bundled products and the delivery of simplified lending solutions through our distribution network.
Personal and Commercial Distribution comprises the retail banking distribution channels, including automatic banking machines, the branch network and BMO mbanx Direct, our electronic banking channel.			
Offer customers an integrated and coordinated multi-channel approach to managing all aspects of their financial affairs, with the goal of becoming the only bank our customers will ever need.	Challenges included transforming our distribution system, in particular the sale of branches to credit unions and the National Bank, as well as integrating branches purchased from TD Canada Trust. Challenges also included integrating a significant number of new sales staff.	• Completed the realignment of the distribution network to support a customer-centric relationship model. • Grew the number of Investment Funds Specialists and Resident Investment Advisors to over 600. • Grew direct banking transactions 41% to 193 million transactions. • Built a robust BMO mbanx Direct for Business capability.	**Outlook** • Competition for customers will remain high. **Focus** • Invest in the replacement of our sales and service technology platform, improving transaction service and equipping our staff to better address our customers' financial needs. • Invest to improve our sales force's ability to serve customers better.
Chicagoland Banking provides a broad range of financial services to more than one million individual and business clients across the Chicago metropolitan area known as Chicagoland.			
Continue strong organic growth and selective acquisitions to achieve our objective of becoming the dominant full-service bank in Chicagoland. Find the best way to "break out" of Chicagoland in retail and small-business banking.	A weaker, more uncertain economy affected the business and credit environment. Rapidly falling interest rates tightened interest margins.	• Acquired First National Bank of Joliet, a full-service community bank, adding US$1.1 billion in assets and 65,000 customers. • Achieved strong retail deposit growth at approximately twice the market rate, and grew retail and small business loans by US$1 billion, or 17%. • Achieved record mortgage activity as outstanding loans grew 25% and the mortgage servicing portfolio surpassed US$5 billion.	**Outlook** • Our competitive advantages position us for growth in a rebounding economy. **Focus** • Move to number two position in retail banking in Chicagoland, closer to our objective of becoming the dominant full-service bank. • Sustain retail and small business lending growth of US$1 billion and above-market growth in deposits. • Pursue selective acquisitions and joint ventures, and find the best way to "break out" of Chicagoland.

Financial Results

Net income of the Personal and Commercial Client Group was $804 million, a decrease of $86 million from 2000. Excluding after-tax gains on sales of branches in 2001 and fiscal 2000 gains on the sales of Partners First and branches, net income was $795 million, a decrease of $4 million from last year.

Revenues of $4,318 million increased $5 million from last year. Excluding non-recurring items in both periods, revenues increased $145 million or 3% to $4,306 million. The increase was attributable to volume growth and higher gains on securitizations, partially offset by lower gains on sales of securities. Revenue growth in the first half of the year was adversely affected by the impact of the introduction in 2000 of initiatives to assist in implementing the Bank's longer-term growth strategy, including a significant increase in the number of front-line sales staff. In the second half of the year, the effects of the assimilation of the new sales team and resulting improvement in volume growth were more than offset by the effects of spread compression in a declining interest rate environment.

The provision for credit losses was $267 million, up $32 million from 2000 because of deterioration in the North American economies.

Stimulative monetary policy in the first half of 2002 may result in further interest rate declines. As a result, spread compression in the deposit businesses may continue in the short term, as rates paid to customers cannot change in response to changes in loan yields.

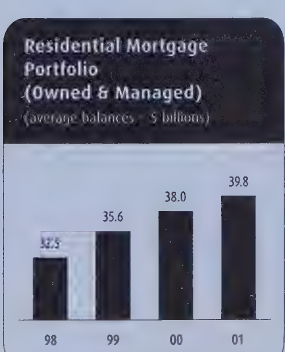
Non-interest expense for 2001 increased $138 million or 5% to $2,683 million, largely due to spending on business initiatives and investment in front-line sales staff. The rate of year-over-year expense growth slowed from 8% in the first half of the year to 3% in the fourth quarter.

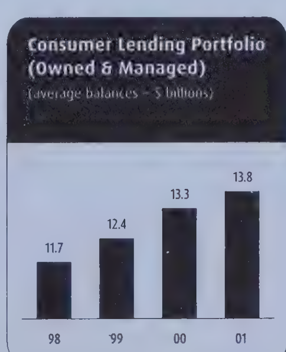
2000 Compared with 1999

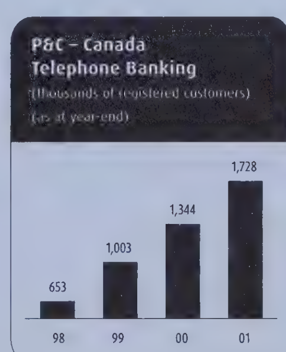
Net income in fiscal 2000 increased $241 million. Excluding non-recurring items that increased net income by $91 million in 2000, net income rose $150 million or 23% to $799 million. Revenues, excluding non-recurring items, increased $259 million or 7%, driven by volume growth in a robust economy. Margins improved across most lines of business. Expenses declined $24 million as costs of business growth and strategic initiative spending were more than offset by lower costs due to business dispositions and sustained cost control. The provision for credit losses increased $70 million due primarily to asset growth, an increase in bankruptcies and the extension of the Bank's expected loss provisioning methodology.

Personal and Commercial Client Group ($ millions, except as noted)

Reported (As at or for the year ended October 31)	2001	2000	1999
Net interest income (teb)	**3,062**	2,937	2,783
Other income	**1,256**	1,376	1,119
Total revenues	**4,318**	4,313	3,902
Provision for credit losses	**267**	235	165
Non-interest expense	**2,683**	2,545	2,569
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	**1,368**	1,533	1,168
Income taxes (teb)	**541**	626	470
Non-controlling interest	**–**	(1)	–
Amortization of goodwill, net of applicable income tax	**23**	18	49
Net income	**804**	890	649
Net economic profit	**493**	566	301
Cash return on equity (%)	**26.7**	30.6	19.2
Average net interest margin (%)	**3.19**	3.20	3.23
Non-interest expense-to-revenue ratio (%)	**62.1**	59.0	65.8
Average common equity	**3,039**	2,877	3,403
Average assets	**95,909**	91,680	86,246
Total risk-weighted assets	**61,814**	58,376	49,079
Average current loans (including securities purchased under resale agreements)	**87,407**	84,053	78,896
Average deposits	**45,521**	42,451	41,859
Assets under administration	**11,756**	10,843	8,169
Assets under management	**486**	–	–
Full-time equivalent staff	**18,479**	18,426	17,884
Excluding Non-Recurring Items			
Total revenues (teb)	**4,306**	4,161	3,902
Net income	**795**	799	649
Cash return on equity (%)	**26.4**	27.5	19.2
Non-interest expense-to-revenue ratio (%)	**62.3**	61.1	65.8







Private Client Group

Group Description

The Private Client Group brings together all of the Bank of Montreal Group of Companies' wealth management businesses, offering clients a broad array of wealth management products and services, including retail investment products, direct and full-service investing, private banking and institutional asset management. Operating under BMO Private Client Group in Canada, and The Harris in the United States, the group provides North American investors with the tools they need to accumulate, protect and grow their financial assets. The group serves four key North American market segments – the mainstream, affluent, high net worth and institutional markets. These segments are served through Bank of Montreal branches, BMO Nesbitt Burns, BMO InvestorLine® and BMO Harris Private Banking in Canada, and in the United States through Harris Private Bank, Harris InvestorLine and Harris Bank branches. Our clients across North America are also served through call centres and the Internet. The group has total assets under management and administration, including term investments, of $237 billion.

Group Strategy

Our goal is to expand our North American wealth management business by delivering an integrated, flexible, advice-driven or guided offering that exceeds client expectations.

2001 Group Objectives and Accomplishments

- **Increase the number of investment professionals in Bank of Montreal branches to 700 to provide more points of contact and convenience for our clients.**
  - Increased the number of Canadian investment sales professionals in Bank of Montreal branches to just under 700. The group's total North American investment sales professional team increased to more than 2,240 representatives, an increase of more than 20% from last year.
- **Continue to aggressively grow our U.S. wealth management business in fast-growing, affluent, technology-friendly urban centres.**
  - Opened 20 new U.S. distribution points.
  - Acquired Century Bank of Arizona, further expanding our physical distribution network in the Western United States.
- **Complete the integration of all our acquired U.S. companies under The Harris brand.**
  - Successfully completed the integration of all acquired U.S. companies under The Harris brand. The Harris is the wealth management arm of Bank of Montreal's U.S. subsidiary, Harris Bank, which offers a full range of wealth management services through Harris Private Bank, Harris InvestorLine and Harris AdvantEdge Investing.
- **Through the new brand, The Harris, continue to build on Harris Bank's long-standing expertise in investment management and trust and estate services in order to develop our wealth management business throughout North America.**
  - Launched Harris AdvantEdge Investing, which offers full-service investing, enabling us to provide a complete range of wealth management services and products to our U.S. clients.
- **Other accomplishments in 2001:**
  - Expanded access to mutual fund distribution channels in Canada with the acquisition of the Guardian Group of Funds.
  - Introduced a new senior position to the group – Executive Vice-President, Client Relations, Office of the Deputy Chairman – to develop and implement best practices in client relations across the organization.
  - Created a new senior role with the appointment of a dedicated risk officer to develop the group's risk management unit and assist the lines of business in the assessment of risk in their businesses.

2002 Group Objectives

- Expand the distribution network on both sides of the border by continuing to grow the total number of investment sales professionals.
- Leverage relationships with the Bank's existing North American client base (six million households in Canada and one million clients in the United States) with further deployment of highly trained investment professionals in Bank branches.
- Continue to expand U.S. wealth management businesses through both acquisition and organic growth by leveraging Harris' long-standing reputation in major U.S. markets while expanding into selective new markets across the country.
  - On November 28, 2001 we announced, subject to regulatory approval, the acquisition of CSFB*direct*, increasing the group's client base in the United States by 50%.
- Increase the breadth and depth of the group's product and service offering.

Business Environment and Outlook

The slower economic growth in 2001 presented a challenging operating environment for the group. Market-driven businesses were adversely affected by slowing client trade volumes, lower equity values and compression of interest rate spreads caused by rapid interest rate declines. In light of weaker markets, cost management programs were proactively instituted across all lines of business. This was balanced with a continued focus on the group's long-term strategic direction. The group maintained its strategic focus on building a highly trained team of investment sales professionals to serve clients' wealth management needs. We also expanded our wealth management products and services in Canada and the United States.

Recent events have created uncertainty in the North American economy and slowed the expected rate of growth over the next year. The challenging economic environment faced in 2001 is expected to continue into fiscal 2002. However, demographic trends continue to indicate a strong demand for wealth management services and the group is well positioned to capitalize on its capabilities and strong foundations when markets rebound. Growth will be achieved through the continued expansion of the North American investment sales professional team and the placement of specialized investment sales professionals in traditional retail banking locations. This will assist in leveraging existing relationships, as well as adding new relationships. The group will continue to expand its wealth management business in the United States through organic growth and will continue to explore appropriate acquisition opportunities. The acquisition of CSFB*direct*, announced subsequent to our year-end, represents another key step in our continuing strategy to assist clients by offering them an integrated approach to wealth management. This will continue to be our focus throughout 2002.

<table>
<tr><th>Overall Business Strategy</th><th>Challenges in 2001</th><th>2001 Highlights</th><th>Business Outlook and Focus for 2002</th></tr>
<tr><td colspan="4">Retail Investment Products include the Bank's family of mutual funds (Harris Insight Funds®[1] and BMO Mutual Funds), Guardian Group of Funds and term investment products (BMO Term Investments) such as GICs and term deposits.</td></tr>
<tr><td>Deliver top-performing retail investment products and packaged investment solutions to retail and commercial customers through multiple distribution channels. In the United States, Harris Insight Funds markets to institutional investors.</td><td>Uncertain market conditions discouraged equity investments, and declining interest rates resulted in slowed GIC sales growth.</td><td>• Gained access to the fastest-growing mutual fund distribution channel – the advisory channel – through the acquisition of Guardian Group of Funds.
• Increased the number of Investment Fund Specialists in key Bank branches.
• Signed a cooperation agreement with Fullgoal Fund Management of China to develop China's mutual fund industry.</td><td>Outlook
• The current market and interest rate environments are expected to continue into 2002.
Focus
• Continue to offer innovative investment products and services to meet investors' needs through changing economic times and lifecycle-driven changes.
• Continue to add Investment Fund Specialists in key Bank branches.</td></tr>
<tr><td colspan="4">Full-Service Investing at the Private Client Division of BMO Nesbitt Burns is focused on building and managing the wealth of clients through an integrated product and service offering.</td></tr>
<tr><td>Provide high-quality advice to full-service investing clients and grow our base of investment advisors.</td><td>Challenging market conditions resulted in decreased client transaction activity.</td><td>• Expanded the Resident Investment Advisor program in Bank of Montreal branches and expanded our sales force to become one of the largest in Canada.
• Launched Full-Service Online, a program that combines the benefits of a full-service relationship with comprehensive Internet-based services.
• Rapid growth in our fee-based and insurance businesses.</td><td>Outlook
• Market weakness is anticipated to continue into 2002.
Focus
• Continue growth by increasing the size of our sales force and enhancing the value-added role of the Investment Advisor.
• Continue to leverage our customer relationships and grow our fee-based assets.</td></tr>
<tr><td colspan="4">Direct Investing at BMO InvestorLine and Harris InvestorLine meets the growing need for direct investment services across North America.</td></tr>
<tr><td>Provide a value-added offering to meet the evolving needs of the online investor and help self-directed investors make informed decisions about their longer-term portfolios.</td><td>Client trading activity slowed due to weak market conditions. We successfully integrated our acquisitions into our operations.</td><td>• BMO InvestorLine was ranked number one online brokerage firm in 2001 by Quicken.ca and launched the first online retirement planner in Canada.
• Integrated Harris InvestorLine into U.S. businesses and ranked in the top 20 by Gomez in fall 2001 brokerage report.</td><td>Outlook
• Challenging market conditions are expected to continue into fiscal 2002, potentially reducing customer activity levels.
Focus
• Expand and leverage our relationships with customers by introducing them to direct investing services.</td></tr>
<tr><td colspan="4">BMO Harris Private Banking offers integrated banking, trust and investment management services to high net worth clients in Canada.</td></tr>
<tr><td>Capitalize on a private banking client-driven model to deliver an entire range of financial products through a single channel, serving relationship-oriented high net worth clients.</td><td>Increased investor anxiety due to poor equity market performance and the general economic slowdown affected new business development.</td><td>• Continued successful execution of long-term strategic initiatives, including branch openings in Hamilton and Quebec City.
• Introduced key products supporting integrated offer, including Succession Planning and Retirement Compensation Agreements.</td><td>Outlook
• Declining interest rates will create further pressure on spreads.
Focus
• Continue growth and improve competitive positioning through expansion of our distribution network.</td></tr>
<tr><td colspan="4">Harris Private Bank delivers specialized banking, investment management and trust and estate services to affluent and wealthy individuals and families in the United States.</td></tr>
<tr><td>Deliver a unique offer centred on integrated solutions to lifestyle events, meeting clients' financial needs through an advisory approach and a rich product offering.</td><td>Depressed market conditions, particularly in the equity markets, contributed to investor reluctance to enter into investment management relationships.</td><td>• Continued to expand our distribution network in key U.S. wealth markets: three new locations in Phoenix and a new office in Minneapolis were added. Increased coverage of the Chicago market by doubling the sales force.</td><td>Outlook
• A weaker economy and lower interest rates will create further pressure on spreads.
Focus
• Expand our distribution network.</td></tr>
<tr><td colspan="4">Institutional Asset Management provides traditional money management services for pension funds, endowments, trusts, insurance company reserves, corporate surpluses and our BMO-affiliated mutual funds in Canada and the United States. This line of business also makes managed futures and hedge funds available to retail and institutional clients.</td></tr>
<tr><td>Grow the investment management business through superior investment performance and client service.</td><td>The market slowdown affected equity-based assets under management and consolidation led to more dominant competitors in Canada and the United States.</td><td>• Achieved strong market performance results in traditional money management services.
• Improved market position in fund management rankings.</td><td>Outlook
• A weaker economy and lower interest rates will present challenges.
Focus
• Continue to grow through superior investment performance and client service.</td></tr>
</table>

Financial Results

Net income of the Private Client Group was $121 million, a decline of $69 million or 37% from the prior year. The decline in net income reflects the weaker market conditions in both Canada and the United States that led to lower trading volumes and reductions in equity valuations.

Revenues of $1,497 million declined $67 million or 4%. Increased revenues from acquired businesses were offset by the impact of challenging market conditions and the overall decline in equity values, primarily affecting full-service and direct investing.

Non-interest expenses increased $61 million or 5% to $1,273 million. Revenue-based compensation declined from the prior year in line with weaker market conditions. This was offset by incremental expenses from acquired businesses and increased investment spending, as the group remained focused on its long-term strategy of expanding its distribution capabilities through initiatives such as the group's third-quarter acquisition of Guardian Group of Funds. This acquisition added $2 billion of assets under management in Canada.

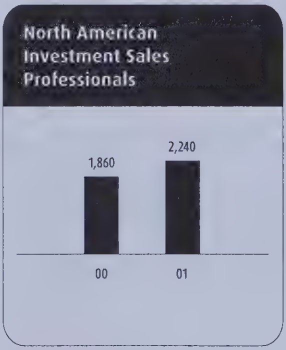
Despite challenging market conditions that resulted in TSE 300 Index and S&P 500 Index declines of 28.6% and 25.9%, respectively, assets under management and administration and term deposits grew $3 billion to $237 billion.

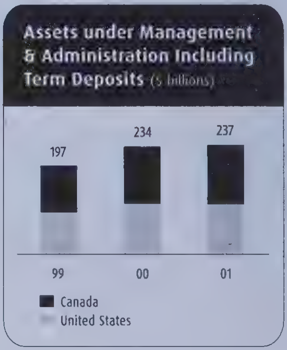
2000 Compared with 1999

Net income of $190 million in 2000 increased $49 million or 35%, reflecting revenue growth in full-service and direct investing businesses, driven by higher client trading volumes in the first half of the year and increased sales of term investments in retail investment products. Lower trading returns on managed futures limited revenue growth. Expense growth was driven by higher revenue-based compensation, expenses associated with business growth, including growth from acquired operations in the United States, and strategic initiatives spending. Results in 1999 included an additional month's results of BMO Nesbitt Burns, which increased that year's revenues by $56 million and expenses by $53 million.

Private Client Group ($ millions, except as noted)

Reported (As at or for the year ended October 31)	**2001**	2000	1999
Net interest income (teb)	**531**	505	408
Other income	**966**	1,059	851
Total revenues	**1,497**	1,564	1,259
Provision for credit losses	**2**	1	–
Non-interest expense	**1,273**	1,212	997
Income before provision for income taxes and goodwill	**222**	351	262
Income taxes (teb)	**91**	153	112
Amortization of goodwill, net of applicable income tax	**10**	8	9
Net income	**121**	190	141
Net economic profit	**59**	138	99
Cash return on equity (%)	**17.7**	35.1	31.7
Average net interest margin (%)	**9.94**	11.76	12.52
Non-interest expense-to-revenue ratio (%)	**85.0**	77.5	79.2
Average common equity	**821**	572	463
Average assets	**5,345**	4,291	3,258
Total risk-weighted assets	**4,420**	4,855	2,812
Average current loans (including securities purchased under resale agreements)	**3,477**	2,938	2,237
Average deposits	**39,869**	38,331	33,829
Assets under administration	**130,548**	130,937	101,953
Assets under management	**72,980**	69,353	60,820
Full-time equivalent staff	**5,127**	4,735	4,226





Investment Banking Group

Group Description

The Investment Banking Group (IBG) combines all of the businesses serving corporate, institutional and government clients across a broad range of industry sectors across Canada, with a North American-wide focus on the media and communications and energy sectors. In the U.S. Midwest, the group serves mid-market clients under the Harris Nesbitt™[1] brand, with a specialization in food and agribusiness across the United States. IBG also serves institutional and government clients in the United Kingdom, Europe and Asia.

We offer clients complete financial solutions across the entire balance sheet, including treasury services, foreign exchange, trade finance, corporate lending, securitization, public and private debt and equity underwriting. The group also offers leading financial advisory services in mergers and acquisitions and restructurings, while providing our investing clients with industry-leading research, sales and trading services.

Group Strategy

Our growth strategy is to build a full-service, integrated North American investment bank capitalizing on industry specialties and distinctive capabilities in order to provide broadly-based Canadian and U.S. mid-market clients with an integrated approach to their capital raising needs. The group is also committed to maintaining its franchise in the United Kingdom, Europe and Asia.

2001 Group Objectives and Accomplishments

- **Realize further significant reduction in risk-weighted assets.**
  - Reduced risk-weighted assets by $6.1 billion to $66.4 billion.
- **Build on our Canadian leadership position in all business sectors.**
  - Ranked first in market share of Canadian equity block trading for the seventh straight year.
  - Ranked Top Overall Research Team by the Brendan Wood International Survey for 21 consecutive years.
  - Canadian securitization unit ranked first in asset-backed securities and mortgage-backed securities trading and distribution by the Investment Dealers Association for the sixth consecutive year.
- **Continue to expand coverage of the highly profitable U.S. Midwest mid-market and related specialty sectors such as food and agribusiness and asset-based lending.**
  - Leveraged lending relationships in the U.S. Midwest mid-market, resulting in a 50% increase in investment banking revenue year-over-year. Our focus on the Midwest mid-market and expertise in specialty sectors helped sustain deal flow in a very difficult market and economic environment.
- **Improve profitability of debt capital markets and treasury activities.**
  - Exited low-return businesses and emphasized client-driven trading activity and significant cost reductions.
- **Continue to build client relationships in the media and communications and energy sectors.**
  - Continued to execute strategy of providing full balance sheet solutions to finance the growth of our U.S. media and communications unit clients. To date, BMO Halyard Partners has made private equity and mezzanine investments in nine companies. In addition, the unit continued to expand its capital markets capabilities in the media and communications sectors and served as manager on transactions that raised total capital of more than $7 billion.
  - Continued to demonstrate cross-border expertise in the energy sector with a total of 10 transactions for a value of $11.1 billion.
- **Increase Credit Investment Management assets under management by US$6 billion to US$13 billion.**
  - Increased Credit Investment Management assets under management by US$4 billion to US$11 billion despite difficult market conditions this year.
- **The group continues to manage risk by adhering to the Bank's internal risk review processes, overseen by two dedicated risk review officers affiliated with our Risk Management Group.**

2002 Group Objectives

- Maintain Canadian leadership in the high-return fee businesses of equity, debt, securitization and mergers and acquisitions.
- Grow existing Harris Nesbitt franchise into the leading investment banking franchise in the U.S. Midwest mid-market.
- Continue to expand coverage of the media and communications and energy sectors.
- Leverage our merchant banking capabilities and expand our private equity investments.
- Continue to develop the Credit Investment Management business by increasing assets under management to US$15 billion, with a focus on high-grade asset structures.

Business Environment and Outlook

The Investment Banking Group operates in a competitive North American environment. Corporate and institutional clients are increasingly accessing financing and mergers and acquisitions opportunities in the United States and are demanding that their advisors provide comprehensive North American capabilities. Despite increased competition from large global investment banks, the group has maintained Canadian market leadership in its core high-return fee businesses including equity, research, securitization and mergers and acquisitions. IBG has effectively integrated its U.S. mid-market corporate and investment bank under the Harris Nesbitt brand. The North American sector strategy allows the group to deliver seamless cross-border products and services to clients.

A slowing global economy contributed to a worldwide decline in merger and acquisition activity, particularly in the technology and media and communications sectors. It also led to decreased levels of new corporate issues, lower equity market volumes and a deteriorating credit environment. In an attempt to stimulate the economy, a program of interest rate reductions was initiated by major central banks globally. The group benefited significantly from the lower interest rate environment in 2001.

At the time of writing, the outlook for the economy is difficult to predict. The group expects Canadian economic growth of approximately 1.6% in 2002, a modest increase from 1.3% in 2001. The main risk facing the Canadian economy remains the uncertainty surrounding the timing and strength of recovery in the United States. The Investment Banking Group remains confident about the outlook for its businesses, but anticipates a further weakening in the business environment during the first half of 2002. An economic recovery is expected during the second half of 2002 as the stimulative impact of the aggressive rate reductions of 2001 takes effect. An anticipated increase in short-term interest rates in 2002 will affect the performance of our interest-rate-sensitive businesses. A cautious mood in the equity markets with modest volume increases will provide a challenge to the Equity Division. Client-driven trading activity in Capital Markets is anticipated to remain strong. The Investment and Corporate Banking line of business faces a weaker business environment, including credit market issues.

Overall Business Strategy	Challenges in 2001	2001 Highlights	Business Outlook and Focus for 2002
Investment and Corporate Banking provides a full suite of financial services to clients throughout North America and Europe. Services include raising public and private capital, advising on restructurings and recapitalizations as well as mergers and acquisitions, and providing valuations and fairness opinions in addition to offering a full range of lending products and facilities.			
In Canada, reinforce our leadership position in key markets and products. In the United States, grow investment and corporate banking in the Midwest mid-market through the Harris Nesbitt franchise. Focus and expand the media and communications and energy businesses in North America.	Globalization continues to attract Canadian corporations to U.S. and European markets. Continued consolidation among competitors and clients is leading to intensified competitive pressure from global players.	• A leader in total corporate issues underwritten in the Canadian market in 2001. • A leader in mergers and acquisitions advisory, with 35 transactions totalling $25.3 billion.	**Outlook** • Weakening business environment will present challenges. **Focus** • Enhance leadership position in Canada and grow businesses in the United States.
The **Capital Markets** line of business provides integrated debt, currency, interest rate and commodity solutions to target wholesale, commercial and retail clients. The unit also provides efficient funding and liquidity to the enterprise and its clients.			
Client-Driven Businesses With our partners in IBG, we intend to be the premier providers of comprehensive integrated solutions to enterprise target clients. **Funding/Proprietary Businesses** Provide efficient funding and liquidity management to the Bank and its clients.	The Bank's underwriting volumes for leveraged deals decreased from the prior year, but remain higher than the overall market, which was down 30%. Market volatility following the events of September 11 also created challenges.	• Continuing role as lead on Greater Toronto Airport Authority $3.1 billion debt program. • Ranked number 17 global foreign exchange provider by Euromoney. • Launched several e-based solutions to optimize client servicing. • Progressed with U.S. debt capital markets build-out, with specialties in high yield, private placements, equity sponsor coverage and restructuring.	**Outlook** • Recessionary environment and flattening yield curve will lead to more challenging conditions. **Focus** • Continue to focus on increasing penetration of target clients and growing and strengthening investor relationships. • Enhance funding and liquidity management. • Optimize client service through e-commerce.
The **Equity Division** has one of the most comprehensive suites of Canadian equity products offered globally, with high-quality sales, trading and research capabilities, and an intense focus on top-tier institutional clients.			
Continue to be the premier Canadian equity franchise in the world, while selectively growing our product base in the U.S. market.	Less liquid financial markets and decreased price volatility in the equity markets affected revenue. Increasing market share from U.S. participants was felt in the Canadian marketplace.	• Maintained industry leadership in equity block trading. • Ranked top overall research team for 21 consecutive years by Brendan Wood International Survey.	**Outlook** • We expect a cautious tone in the market with modest volume increases. • Market performance at low levels. **Focus** • Maintain leadership position in block trading and external research rankings. • Expand equity derivatives capability by increasing product offering.

Overall Business Strategy	Challenges in 2001	2001 Highlights	Business Outlook and Focus for 2002
The **Securitization and Credit Investment Management** (CIM) line of business offers both issuers and investors products and services that use credit as a tool for asset management and funding alternatives.			
To create a highly profitable, market-leading structured credit business.	**Securitization** Competition continued for securitization-related financings. **CIM** Instability due to difficult credit markets affected growth in assets under management, particularly in the high-yield sector. The Bank's equity investments in its own high-yield CBOs were also adversely affected by market conditions.	**Securitization** • Maintained leadership in the highly competitive Canadian market with top-tier rankings in multi-vendor conduits, term transactions and trading and distribution. • Improved fee revenues in both Canada and the United States. **CIM** • Launched Euro High Grade asset program. Relative performance has been consistently strong, as the North American and U.K. units outperformed market indices and internal targets.	**Outlook** • Challenging high-yield market conditions are expected to continue. **Focus – Securitization** • Maintain leadership position in the Canadian market. • Grow fee revenue by more than 15%. **Focus – CIM** • Grow assets under management by US$4 billion with focus on high-grade asset structures. • Continue strong performance relative to market indices and internal targets.
The **International Unit** provides financial institutions and select multinational corporations with innovative international solutions. These include trade finance, correspondent banking, investment dealer financing and other bank services.			
To be Canada's premier provider of innovative international client solutions by providing best-in-class client service and innovative product development, enhanced through the use of technology and broad-based cost-effective service delivery.	Deterioration in emerging markets affected revenue. We are working to provide our clients with better electronic access to our services.	• Remained leader with sustained market share in profitable niches. Investment dealer financing weathered the difficult capital market with positive results. • In keeping with our leadership in trade finance, we are jointly developing a global electronic transaction processing business for trade services. This joint venture, with other bank and technology company partners, is called Proponix. The initial operating hub, located in Australia, has commenced the successful execution of live transactions.	**Outlook** • Expectations for 2002 are guarded, given the continued slowdown in emerging markets. The core business of correspondent banking is expected to remain positive. **Focus** • Continue to grow our targeted markets such as trade finance and investment dealer financing where we have distinctive capabilities. Also, to aggressively market internationally our unique Canadian and U.S. capabilities in the correspondent banking area.
The **Merchant Banking** line of business, through BMO Equity Partners and BMO Halyard Partners, sources, structures and finances private equity investments in Canada and the United States as an alternative to accessing the public equity markets. The Merchant Bank also invests in third-party equity funds.			
Selectively pursue private equity and mezzanine investments that meet minimum return hurdles and that have the potential to increase relationship income by providing opportunities to offer the full range of IBG's products.	The early stages of most investments together with weakening economies affected capital realizations. Higher private equity investment write-downs were also experienced.	• Achieved dividend income of $38 million (teb). • Total funds invested and committed as at October 31, 2001 were $682 million, an increase of $129 million during the year.	**Outlook** • Currently, the marketplace is producing attractive returns and structures, as private equity capital is in greater demand. This advantage is partially driven by the uncertainty of the exit strategy for many companies. **Focus** • Continue to selectively pursue investments that meet return hurdles and provide relationship income potential.

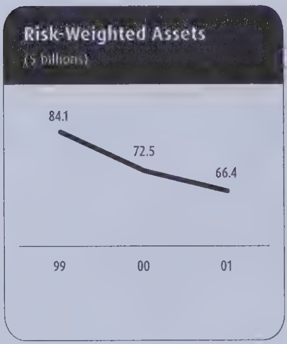
Financial Results

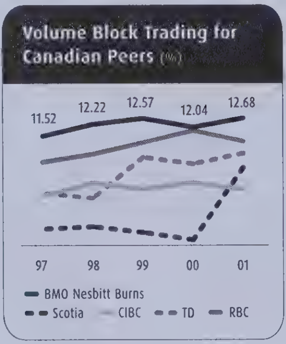
Net income for the year was $402 million, a decrease of $201 million or 33% from fiscal 2000. Excluding a non-recurring fourth-quarter write-down of $178 million ($105 million after tax) on the group's equity investments in its own CBOs, net income was $507 million, or $96 million below last year.

Revenues improved by $71 million or 3% to $2,380 million. Excluding the non-recurring item above, revenues increased $249 million or 11% to $2,558 million. The increase was primarily driven by significantly improved results from the Capital Markets line of business, which benefited from several interest rate reductions by central banks and from improved client-driven trading activity. Strong dividend income, securitization fees and increased loan spreads also contributed to improved results. A weaker economy in both Canada and the United States contributed to lower levels of merger and acquisition activity, particularly in technology, media and telecommunications; to decreased levels of new corporate equity and debt issues; and to lower equity market volumes than the record levels of a year ago. This year's revenues were affected by total write-downs in the group's equity ownership interests in its own high-yield CBOs of $225 million (pre-tax). The CBOs have been adversely affected by deterioration in the credit markets. The group also experienced higher private equity investment write-downs in the current year.

The provision for credit losses increased $387 million from the prior year to $538 million. The increase reflects a prudent response to the deteriorating economic conditions in North America in the latter part of fiscal 2001 and their effect on our portfolio. The increased provisions were related to U.S. mid-market corporate borrowers in a broad range of industries and to our Canadian portfolio.

Non-interest expenses increased $59 million or 5% to $1,227 million, largely due to higher revenue-based compensation and increased employee costs in support of the group's sector strategy.





Investment Banking Group ($ millions, except as noted)

Reported (As at or for the year ended October 31)	2001	2000	1999
Net interest income (teb)	**1,260**	1,098	1,282
Other income	**1,120**	1,211	1,010
Total revenues	**2,380**	2,309	2,292
Provision for credit losses	**538**	151	79
Non-interest expense	**1,227**	1,168	1,134
Income before provision for income taxes and goodwill	**615**	990	1,079
Income taxes (teb)	**206**	380	429
Amortization of goodwill, net of applicable income tax	**7**	7	7
Net income	**402**	603	643
Net economic profit	**(95)**	106	150
Cash return on equity (%)	**8.3**	13.6	13.9
Average net interest margin (%)	**0.89**	0.79	0.93
Non-interest expense-to-revenue ratio (%)	**51.6**	50.6	49.5
Average common equity	**4,258**	4,012	4,223
Average assets	**141,685**	139,567	137,455
Total risk-weighted assets	**66,366**	72,497	84,116
Average current loans (excluding securities purchased under resale agreements)	**36,160**	38,325	35,084
Average securities purchased under resale agreements	**20,616**	20,210	29,259
Average deposits	**56,613**	66,112	63,782
Assets under administration	**2,207**	4,344	4,102
Assets under management	**16,485**	11,404	2,907
Full-time equivalent staff	**2,163**	2,117	2,105
Excluding Non-Recurring Items			
Total revenues (teb)	**2,558**	2,309	2,292
Net income	**507**	603	643
Cash return on equity (%)	**10.7**	13.6	13.9
Non-interest expense-to-revenue ratio (%)	**48.0**	50.6	49.5

2000 Compared with 1999

Net income from normal operations was $603 million in 2000, an increase of $7 million or 1% from 1999. On a reported basis, net income decreased $40 million or 6% from 1999, reflecting the Bank's extension of its expected loss provisioning methodology to allocate the provision for credit losses to the operating groups, and also the inclusion of an additional month's results from BMO Nesbitt Burns in fiscal 1999. Normal operations results for 2000 reflected robust merger and acquisition and new issuance activity due to rapid consolidation in many industries, record equity trading volumes and investment gains. A flattening of the yield curve in 2000 negatively affected performance from interest-rate-sensitive businesses. Fiscal 2000 earnings were affected by trading losses of $30 million (after tax) on natural gas options, reflecting a sharp rise in energy prices.

Emfisys®

Group Description

Emfisys, the technology and e-business group, provides IT planning, strategy and development services, together with transaction processing, North American cash management and real estate operations for the Bank of Montreal Group of Companies and its customers. The group is also responsible for the creation, development and support of the Bank's e-business services.

Group Strategy

Create superior shareholder value for the Bank of Montreal Group of Companies by being the competitive provider of choice for its internal customers (P&C, PCG, IBG). The group delivers information technology and processing solutions and invests in strategic alliances and outsourcing initiatives.

Emfisys 2001 Objectives and Accomplishments

- **Create superior value for the Bank, customers and shareholders through realigning most of the Bank's e-business to Emfisys – maximizing the value between our services and product delivery, and partnering with all banking groups on planning, resource allocation and investment.**
  - Emfisys created the E-Business Division to support the e-business priorities of the Bank's lines of business and consolidate enterprise e-business governance and strategy.
- **Increase market competitiveness, efficiency and quality of service through the creation of new high-growth, high-return businesses, technology investment and innovation, e-business research and development, and the optimization of strategic alliances, partnerships, joint ventures and outsourcing initiatives.**
  - Introduced eScout℠, one of North America's fastest-growing and most successful B2B exchanges, to small and medium-sized business clients in the United States; through agreement with the Canadian Chamber of Commerce, provided MERX™ electronic tendering services to more than 170,000 Canadian businesses; and signed a letter of intent with CertaPay Inc. to offer customers a secure person-to-person money transfer system.
- **Expand the enterprise-wide retail customer information system to all service delivery channels to promote high-quality customer service.**
  - Delivered a system which provides a complete, real-time view of retail banking products held by our clients, enhancing service delivery across our branches, BMO mbanx Direct call centres and bmo.com.
- **Launch an integrated retail platform.**
  - Developed and launched a state-of-the-art technology platform, Pathway Connect, to provide retail and commercial employees with the tools they require to deepen client relationships and meet individual client needs.
  - Developed and launched Optimizer, a leading-edge sales and service application that enables over 2,000 commercial lenders across Canada to provide clients with enhanced service, products and time-sensitive solutions.
- **Deliver web-enabled services to most lines of business for both customer and employee use.**
  - Developed and launched the first full-service online trading application, Full-Service Online, to provide BMO Nesbitt Burns' clients with up-to-the-minute financial information and personal risk tolerance assessment to guide their investment decisions.
- **Implement an enterprise-wide e-procurement system that lowers processing costs and provides comprehensive information for greater control and better sourcing opportunities.**
  - Implemented BMO Buying Online to achieve savings by automating procurement activities and improving access to sourcing opportunities through better purchasing information and compliance with preferred programs.
- **Accelerate growth in the commercial market through the design and delivery of North American Cash Management products and services.**
  - Developed and launched Harris Bank's DirectLine for Business, an Internet access service that enables small business and community bank clients to focus on cash management strategy and analysis.

Emfisys 2002 Objectives

- Complete nation-wide rollout of the majority of Pathway Connect.
- Introduce eScout℠ to our small and medium-sized business clients in Canada.
- Focus on our clients by creating an environment that supports a "market of one" approach to sales, service and relationships.
- Continue to create alliances and partnerships that deliver world-class financial solutions and outstanding quality to our clients.
- Optimize revenue generation, profitability and growth through our North American Cash Management business, E-Business Division, strategic alliances, partnerships and joint ventures.
- Provide clients, through an agreement with CertaPay, with the first bank-based, person-to-person money transfer system of its kind and magnitude in the world.
- Increase penetration in high-growth, high-value markets by leveraging industry-leading technology capabilities in wealth management and investment banking.

Corporate Support

Group Description

Corporate Support includes the corporate units that provide expertise and governance support for the Bank in areas such as strategic planning, law, finance, economics, internal audit, risk management, corporate communications, human resources and learning. Corporate Support also includes revenues and expenses associated with certain securitization activities, the hedging of foreign source revenues, the Bank's debenture and former equity investments in Bancomer, and the management of certain treasury positions.

Emfisys and Corporate Support ($ millions, except as noted)

Reported (As at or for the year ended October 31)	2001	2000	1999
Net interest income (teb)	**(212)**	(202)	(56)
Other income	**880**	680	531
Total revenues	**668**	478	475
Provision for credit losses	**173**	(29)	76
Non-interest expense	**488**	333	588
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	**7**	174	(189)
Income taxes (teb)	**(195)**	(36)	(137)
Non-controlling interest	**42**	20	21
Amortization of goodwill, net of applicable income tax	**16**	16	(22)
Net income	**144**	174	(51)
Full-time equivalent staff	**8,073**	7,922	8,629
Excluding Non-Recurring Items			
Total revenues (teb)	**347**	404	504
Provision for credit losses	**73**	13	76
Non-interest expense	**488**	376	447
Net income	**(45)**	80	45

Financial Results

Net income for the year was $144 million, down $30 million from fiscal 2000. Results in 2001 reflected a non-recurring $321 million gain on the sale of Bancomer ($272 million after tax). Results were also affected by a $100 million general provision for credit losses that is categorized as non-recurring for reporting purposes. Non-recurring items and their effects are outlined on page 55. Excluding non-recurring items, the net loss was $45 million or $125 million worse than in fiscal 2000. Results were affected by a $54 million reduction in earnings recognized on the Bank's investment in Bancomer, as a result of the change to cost accounting. Securitization revenues declined modestly as gains recognized on the adoption of a new Canadian accounting guideline were more than offset by reduced earnings due to lower cash flows caused by defaults in assets in a securitized portfolio and by the write-off of a securitization receivable. Excluding non-recurring items, gains on sales of investment securities declined from last year. The increased provision for credit losses reflected the allocation of provisions in excess of expected loss charged to the operating groups. Expenses rose, partly because of the timing of costs allocated to operating groups. Results for the current year also benefited from various tax initiatives and the resolution of issues with taxation authorities.

2000 Compared with 1999

Net income for 2000 was $174 million, up $225 million from fiscal 1999. Excluding non-recurring items, net income was $80 million, or $35 million higher than in fiscal 1999. During 2000, we discontinued recognizing the Bank's share of earnings from Bancomer, which declined $54 million year-over-year.

Harris Bank

Harris Bank, with US$28 billion in assets, is one of the largest community bank networks in Illinois, a nationally-recognized provider of private client and personal trust services, and a premier U.S. Midwest mid-market corporate and investment bank. In 2001, Harris had close to 150 locations throughout the metropolitan Chicago area ("Chicagoland"), and 15 locations in Arizona and Florida. Together with Bank of Montreal, Harris offers its clients the range of services and depth of expertise of one of the largest financial institutions in North America. Our client base includes individuals, small and medium-sized businesses and corporate clients throughout the Chicagoland area and beyond. We provide clients with high-quality service, advice and product choices that build the foundation for strong customer relationships.

Strategy

Harris Bank is the centrepiece of the Bank's U.S. growth strategy. This strategy has three components as we expand in concentric circles from our Chicago base. Our first goal is to make Harris the dominant full-service bank in Chicagoland. Our second goal is to leverage our Harris

2001 Objectives and Accomplishments

- **Sustain double-digit earnings growth.**
  - 6% growth in core earnings, which exclude the impact of the corporate trust and merchant card divestitures and an increased provision in recognition of a more uncertain economic environment.
  - Reported earnings decreased 25% to US$201 million.
- **Through The Harris brand, continue to build on Harris Bank's long-standing expertise in investment management and personal trust services to develop our wealth management business throughout North America.**
  - Wealth management services were expanded through The Harris brand with the launch of Harris AdvantEdge Investing, which offers full-service investing, the successful operational integration of recent acquisitions, and expanded distribution of wealth management products through our community banking network.
- **Ramp up retail and small business lending, targeting to increase retail and small business loans outstanding by more than US$1 billion per year for the next several years.**
  - Retail and small business lending increased US$1 billion. The acquisition of First National Bank of Joliet added another US$562 million.
- **Continue to develop Harris Nesbitt as the premier mid-market corporate and investment banking organization in the U.S. Midwest.**
  - Harris Nesbitt has successfully completed the integration of our mid-market corporate and investment banking units, and now has a unified and disciplined approach to the coverage of high-value clients and prospects by relationship teams.

2002 Objectives

- Sustain strong retail and small business lending growth, targeting to increase loans outstanding by more than US$1 billion per year for the next several years.
- Continue strong organic growth and selective acquisitions toward our objective of building the dominant full-service bank in Chicagoland.
- Continue to expand U.S. wealth management business through both acquisition and organic growth by leveraging Harris' long-standing reputation in major U.S. markets while expanding into selective new markets across the country.
- In Harris Nesbitt, accelerate the development of top-tier, multi-product, lead client relationships with continued double-digit growth in investment banking revenues.

franchise to become the premier mid-market corporate/investment bank centred in the U.S. Midwest and build on BMO Nesbitt Burns' North American strengths in high-growth sectors such as energy, and media and telecommunications. And thirdly, combining the long-standing strengths and expertise of Harris private banking and BMO Nesbitt Burns full-service brokerage, to expand our private client franchise in the sunbelt and other fast-growing affluent urban centres across the United States.

Business Environment and Outlook

With the fiscal and monetary stimulus currently being applied, an economic rebound is expected by the middle of 2002. Corporate and household borrowings are expected to be relatively subdued in the context of the gradually healing economy. As the recovery gains speed, Harris Bank will be well positioned to take advantage of the market opportunities that will open up in an accelerating expansion, particularly given our position in the relatively underserved Chicagoland banking market. As well, an equity market rebound has always been part of an economic upswing, and Harris' well-established wealth management business can be expected to thrive under these conditions. And finally, our strong corporate and investment banking relationships with mid-market companies in the Midwest and beyond will position Harris well for profitable growth.

Financial Results

On a U.S. dollar/U.S. GAAP basis, Harris Bank's net income was $201 million, compared with $268 million a year ago. This represents a decline of $67 million or 25%. The continued uncertainty in the economic environment prompted Harris Bank to announce a fourth-quarter increase in its provision for credit losses of $80 million after-tax. Excluding the impact of this provision, which related primarily to the corporate loan portfolio, Harris' net income for the year was $281 million. Results include the effect of the acquisition of the First National Bank of Joliet and its US$1.1 billion in assets. Comparability of results is also affected by the $30 million after-tax gain on the sale of the corporate trust business in the prior year, by the current year's $36 million after-tax gain on the sale of Harris Bank's merchant card business to Moneris, and by this year's $2 million after-tax reduction of the gain on sale of the corporate trust business. Because the card business transaction was between related companies, the gain was not included in the consolidated results of Bank of Montreal. Excluding these gains and related charges, the aforementioned increased provision for loan losses and the operating income of the divested businesses, net income for the year was $248 million, an increase of $15 million or 6% from the prior year. This increase was mainly attributable to continued strong growth in consumer, mortgage and small business loans and retail deposits, and a more favourable interest rate environment that contributed to increased earnings from treasury and trading activities. These were largely offset by the higher loan loss provision associated with the impact of a slowing economy, primarily affecting Harris' corporate loan portfolio, and by expenses related to business growth and expansion.

2000 Compared with 1999

On a U.S. dollar/U.S. GAAP basis, net income rose $48 million to $268 million in 2000. Excluding a non-recurring $30 million gain on sale of the corporate trust business in 2000 and higher securities gains in 1999, earnings increased 13%. The increase was attributable to strong business growth, sustained cost control and low credit losses, partially offset by the impact of a higher interest rate environment.

Harris Bank (US$ millions, U.S. GAAP, except as noted)

Reported (As at or for the year ended October 31)	**2001**	2000	1999
Net interest income (teb)	**760**	694	642
Other income	**504**	489	485
Total revenues	**1,264**	1,183	1,127
Provision for credit losses	**208**	27	30
Non-interest expense	**723**	713	738
Income before provision for income taxes and goodwill	**333**	443	359
Income taxes (teb)	**115**	159	123
Amortization of goodwill, net of applicable income tax	**17**	16	16
Net income	**201**	268	220
Net income by group: P&C	**73**	64	60
PCG	**23**	22	22
IBG	**58**	119	120
Corp	**47**	63	18
Net economic profit	**28**	124	77
Cash return on equity (U.S. basis) (%)	**12.9**	21.1	17.5
Average net interest margin (U.S. basis) (%)	**2.99**	2.83	2.91
Non-interest expense-to-revenue ratio (%)	**57.2**	60.3	65.4
Average common equity	**1,798**	1,509	1,519
Average assets	**28,677**	27,705	25,260
Total risk-weighted assets	**22,732**	23,287	20,518
Full-time equivalent staff	**5,756**	6,260	6,627

Economic and Financial Services Developments

Highlights	
• The Canadian and U.S. economies are expected to recover early in 2002. • Interest rates are forecast to remain low before rising gradually in the second half of 2002.	• The Canadian dollar is anticipated to strengthen modestly against the U.S. dollar.

Canadian and U.S. Economic and Financial Services Developments in 2001

Canada's economy slowed sharply in the first half of 2001 and will likely contract in the second half. Exports to a depressed U.S. economy plunged during the year. Business investment in computing equipment retrenched as a result of overspending in earlier years. Though supported by low interest rates, consumer spending slowed in step with weakening employment and falling equity markets. Housing markets, however, remained strong in response to low mortgage rates. The jobless rate climbed after falling to a quarter-century low in 2000. Inflation stayed low despite earlier increases in energy prices, allowing the Bank of Canada to reduce interest rates to stimulate domestic demand. The Canadian dollar weakened against the U.S. dollar as commodity prices fell.

The retrenchment in business investment slowed the demand for business credit in fiscal 2001. Consumer loans also slowed owing to weaker sales of durable goods such as cars, furniture and appliances. However, residential mortgage growth remained relatively strong in the resilient housing market.

The September 11 terrorist attacks likely tipped an already faltering U.S. economy into recession in the second half of 2001. Activity had stalled in the spring and summer, before contracting in the fall, amid a downturn in exports and business investment. Consumer spending weakened in response to falling employment rates and share prices. However, low mortgage rates provided support to a sturdy housing market. The unemployment rate rose after falling to a 31-year low in the previous year. Though drifting higher, inflation stayed low enough to allow the Federal Reserve to aggressively cut interest rates to support demand. The U.S. federal government has pledged roughly $200 billion in fiscal measures to support the weak economy and for reconstruction efforts and military actions in the wake of the terrorist attacks. Loan growth weakened during fiscal 2001.

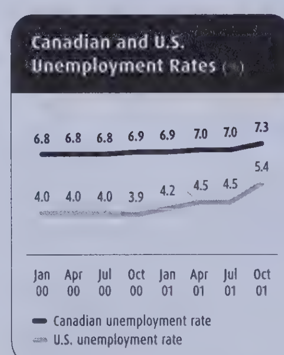
Economic and Financial Services Outlook for 2002

Low domestic interest rates and an anticipated recovery in the U.S. economy should allow Canada's economy to strengthen in 2002. In this environment, housing markets are expected to remain healthy. The jobless rate is forecast to peak at just above 8% before drifting lower. Inflation should decline as a result of excess capacity in the economy. Interest rates will likely remain steady until late summer, before rising gradually. The Canadian dollar should strengthen modestly against the U.S. dollar as the global economy and commodity prices recover. We expect household and business loan growth to strengthen.

Stimulative monetary and fiscal policies should revive the U.S. economy in 2002. Business investment and consumer spending are expected to strengthen in the first half of the year and to expand at an above-normal rate in the second half. Housing activity should remain elevated. The jobless rate is forecast to peak at about 6% early in the year before moving lower. Interest rates will likely remain low until the summer, before rising in the face of strengthening demand. Loan demand should improve as the economy strengthens.

Financial Services Reform Legislation

In 2001, the Canadian federal government passed its much-anticipated financial services reform legislation, Bill C-8. Key features of the bill include: an expansion of the range of permitted investments, a new ability to use holding companies to organize business activities, an increase in ownership limits, an expansion of access to the payments system, the widening of foreign bank entry rules, and provisions for a merger review process. The focus in the financial services industry has now shifted to the regulatory implementation of Bill C-8, which will extend into fiscal 2002, and to the competitive need to achieve further rationalization of the multi-layered regulatory structure in Canada.



Supplemental Information

Notes

- Please refer to the Notes to Consolidated Financial Statements on page 62.
- All share data has been restated to reflect the effects of a 100% stock dividend that became effective in the second quarter of 2001. There was also a two-for-one stock distribution in March 1993 and share data presented for 1992 was restated to reflect that distribution.
- All annual data is for the years ended or as at October 31 and all amounts are in millions of Canadian dollars unless indicated otherwise.
- teb indicates that amounts are expressed on a taxable equivalent basis or refers to the taxable equivalent basis adjustment, both of which are defined in the glossary on page 90.
- Certain terms in the tables are defined in the glossary on page 90.
- Items indicated NA are not available.
- Items indicated na are not applicable.

Index

Table 1: Shareholder Value

As at or for the year ended October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Market Price per Common Share ($)										
High	**44.40**	35.80	34.80	43.50	30.80	20.83	15.50	15.38	13.69	12.06
Low	**32.75**	21.00	24.68	25.88	19.53	14.69	12.06	11.00	10.66	9.28
Close	**33.86**	35.25	28.33	31.55	30.43	20.28	14.88	12.56	13.44	11.78
Common Dividends										
Dividends declared per share ($)	**1.12**	1.00	0.94	0.88	0.82	0.74	0.66	0.60	0.56	0.53
Dividends paid per share ($)	**1.09**	0.99	0.93	0.88	0.80	0.71	0.65	0.59	0.56	0.53
Dividend payout ratio (%)	**40.8**	30.2	39.6	37.4	35.0	35.1	38.2	40.3	43.3	44.7
Excluding non-recurring items (%)	**43.8**	33.7	36.8	37.4	33.8	34.7	36.8	37.9	43.3	44.1
Dividend yield (%)	**3.1**	3.5	2.9	2.9	3.9	4.7	5.1	4.4	4.7	5.7
Total Shareholder Return (TSR)										
Five-year TSR (%)	**14.3**	22.9	22.0	23.3	26.1	22.2	23.1	14.3	20.6	19.8
One-year TSR (%)	**(1.2)**	29.0	(7.4)	6.4	55.0	42.4	24.1	(2.3)	19.4	32.4
Common Share Information										
Number of common shares outstanding (in thousands)										
End of period	**489,085**	522,584	534,064	528,866	522,873	519,874	527,369	530,913	498,188	489,639
Average – basic	**511,286**	531,318	531,723	525,021	520,819	522,465	531,264	502,615	495,454	484,157
– diluted	**523,561**	540,815	542,920	542,181	538,469	538,271	548,267	512,992	505,267	490,261
Number of shareholder accounts	**45,190**	46,663	49,369	51,387	53,651	55,571	57,187	58,879	62,342	65,723
Total book value per common share ($)	**19.69**	19.63	17.44	16.36	14.59	12.94	11.71	10.69	9.70	8.85
Total market value of common shares ($ billions)	**16.6**	18.4	15.1	16.7	15.9	10.5	7.8	6.7	6.7	5.8
Price-to-earnings ratio (times)	**12.4**	10.7	11.9	13.4	12.9	9.7	8.6	8.3	10.4	9.9
Excluding non-recurring items (times)	**13.3**	11.9	11.1	13.4	12.5	9.5	8.3	7.9	10.4	9.8
Price-to-cash earnings ratio (times)	**11.6**	10.2	11.3	12.7	12.3	9.1	8.1	8.0	9.8	9.9
Excluding non-recurring items (times)	**12.4**	11.4	10.5	12.7	11.9	9.0	7.8	7.5	9.9	9.8
Market-to-book value (times)	**1.72**	1.80	1.62	1.93	2.09	1.57	1.27	1.17	1.39	1.33
Equity-to-assets ratio	**5.12**	5.44	4.93	5.00	4.36	4.56	4.74	4.85	4.93	4.80

Table 2: Earnings Growth ($ millions, except as noted)

For the year ended October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Income Statement										
Net interest income (teb)	**4,641**	4,338	4,417	4,152	4,186	3,711	3,564	3,325	3,207	3,038
Other income	**4,222**	4,326	3,511	3,118	2,981	2,516	2,102	1,871	1,654	1,404
Total revenues (teb)	**8,863**	8,664	7,928	7,270	7,167	6,227	5,666	5,196	4,861	4,442
Provision for credit losses	**980**	358	320	130	275	225	275	510	675	550
Non-interest expense	**5,671**	5,258	5,288	4,785	4,567	3,913	3,612	3,208	2,897	2,749
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	**2,212**	3,048	2,320	2,355	2,325	2,089	1,779	1,478	1,289	1,143
Income taxes (teb)	**643**	1,123	874	938	954	866	746	627	555	483
Non-controlling interest in subsidiaries	**42**	19	21	25	25	20	13	11	6	4
Net income before goodwill	**1,527**	1,906	1,425	1,392	1,346	1,203	1,020	840	728	656
Amortization of goodwill, net of applicable income tax	**56**	49	43	42	41	35	34	15	19	16
Net income	**1,471**	1,857	1,382	1,350	1,305	1,168	986	825	709	640
Year-over-year growth (%)	**(20.8)**	34.4	2.4	3.5	11.7	18.4	19.5	16.4	10.9	7.5
Net income excluding non-recurring items	**1,378**	1,672	1,477	1,350	1,348	1,182	1,020	871	709	648
Year-over-year growth (%)	**(17.6)**	13.1	9.5	0.2	14.1	15.8	17.1	22.9	9.5	4.8
Earnings per Share before Goodwill ($)										
Basic	**2.83**	3.40	2.46	2.44	2.43	2.17	1.79	1.53	1.33	1.22
Diluted	**2.77**	3.34	2.41	2.37	2.36	2.12	1.75	1.51	1.31	1.21
Year-over-year growth (%)	**(17.1)**	38.6	1.7	0.4	11.3	21.1	15.9	15.3	8.3	1.7
Earnings per Share ($)										
Basic	**2.72**	3.30	2.38	2.36	2.35	2.10	1.73	1.51	1.30	1.19
Diluted	**2.66**	3.25	2.34	2.29	2.28	2.06	1.69	1.49	1.28	1.18
Year-over-year growth (%)	**(18.2)**	38.9	2.2	0.4	10.7	21.9	13.4	16.4	8.5	1.7
Excluding non-recurring items	**2.48**	2.91	2.51	2.29	2.36	2.08	1.75	1.57	1.28	1.19
Year-over-year growth (%)	**(14.8)**	15.9	9.6	(3.0)	13.5	18.9	11.5	22.7	7.6	(1.7)
Diluted Cash Earnings per Share ($)	**2.86**	3.39	2.46	2.42	2.42	2.17	1.79	1.55	1.35	1.18
Year-over-year growth (%)	**(15.6)**	37.8	1.7	–	11.5	21.2	15.5	14.8	14.4	1.7
Excluding non-recurring items	**2.68**	3.05	2.64	2.42	2.50	2.19	1.86	1.64	1.34	1.19
Year-over-year growth (%)	**(12.1)**	15.5	9.1	(3.2)	14.2	17.7	13.4	22.4	12.6	(1.7)

Table 3: Profitability ($ millions, except as noted)

For the year ended October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Net income	**1,471**	1,857	1,382	1,350	1,305	1,168	986	825	709	640
Preferred dividends	**80**	101	117	112	83	69	69	69	68	64
Net income available to common shareholders	**1,391**	1,756	1,265	1,238	1,222	1,099	917	756	641	576
Average common shareholders' equity	**10,100**	9,745	8,976	8,128	7,165	6,457	5,937	5,088	4,564	4,072
Return on common shareholders' equity (ROE) (%)	**13.8**	18.0	14.1	15.2	17.1	17.0	15.4	14.9	14.1	14.1
Excluding non-recurring items (%)	**12.9**	16.1	15.1	15.2	17.7	17.2	16.0	15.8	14.1	14.3
Return on average total equity (%)	**12.7**	16.3	12.8	13.8	15.8	16.0	14.5	13.9	13.1	13.2
Excluding non-recurring items (%)	**11.9**	14.7	13.6	13.8	16.3	16.1	15.0	14.7	13.1	13.4
Cash return on common shareholders' equity (%)	**14.8**	18.8	14.8	16.1	18.0	17.9	16.4	15.5	14.8	14.1
Excluding non-recurring items (%)	**13.9**	16.9	15.9	16.1	18.6	18.2	17.0	16.4	14.8	14.3
Return on average assets (%)	**0.60**	0.79	0.61	0.59	0.66	0.74	0.68	0.68	0.63	0.61
Excluding non-recurring items (%)	**0.57**	0.71	0.65	0.59	0.69	0.75	0.71	0.71	0.63	0.62
Return on average assets available to common shareholders (%)	**0.57**	0.75	0.56	0.54	0.62	0.69	0.64	0.62	0.57	0.55
Excluding non-recurring items (%)	**0.53**	0.67	0.60	0.54	0.64	0.70	0.66	0.66	0.57	0.56

Table 4: Balance Sheet Summary ($ millions)

As at October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Assets										
Cash resources	**17,656**	18,508	24,036	19,730	32,245	24,187	20,317	14,659	12,081	11,288
Securities	**37,676**	46,463	43,273	43,465	41,789	36,609	33,019	26,535	23,328	22,581
Loans (net)	**136,829**	133,817	138,001	129,691	114,918	98,413	88,442	88,634	74,028	68,251
Acceptances	**7,936**	8,630	6,753	6,944	5,594	4,397	4,469	3,430	3,555	2,878
Other assets	**39,312**	25,978	18,552	22,760	13,292	6,226	5,587	4,917	3,877	4,037
Total assets	**239,409**	233,396	230,615	222,590	207,838	169,832	151,834	138,175	116,869	109,035
Liabilities and Shareholders' Equity										
Deposits	**154,290**	156,697	156,874	143,983	144,212	119,262	109,605	98,241	87,859	86,601
Other liabilities	**69,763**	59,847	58,048	63,208	50,892	39,670	32,602	31,178	20,961	15,604
Subordinated debt	**4,674**	4,911	4,712	4,791	3,831	3,314	2,595	2,218	2,363	1,666
Share capital										
Preferred	**1,050**	1,681	1,668	1,958	1,274	857	858	860	852	832
Common	**3,375**	3,173	3,190	3,095	3,019	2,989	3,002	3,002	2,632	2,539
Retained earnings	**6,257**	7,087	6,123	5,555	4,610	3,740	3,172	2,676	2,202	1,793
Total liabilities and shareholders' equity	**239,409**	233,396	230,615	222,590	207,838	169,832	151,834	138,175	116,869	109,035
Average Daily Balances										
Net loans	**138,932**	135,339	135,596	130,686	113,136	94,598	87,028	77,292	73,918	66,469
Assets	**243,248**	234,944	226,714	227,450	196,721	158,316	144,115	122,234	113,387	104,591

Table 5: Liquid Assets ($ millions, except as noted)

As at October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Canadian Dollar Liquid Assets										
Deposits with other banks	**1,535**	1,814	843	1,080	3,110	2,839	3,002	2,790	1,762	1,394
Other cash resources	**1,296**	782	817	745	702	631	17	651	734	967
Securities	**16,398**	20,846	15,942	17,216	22,442	22,651	21,245	16,915	16,436	15,251
Total Canadian dollar liquid assets	**19,229**	23,442	17,602	19,041	26,254	26,121	24,264	20,356	18,932	17,612
U.S. Dollar and Other Currencies Liquid Assets										
Deposits with other banks	**13,431**	15,125	21,279	16,334	26,946	18,606	16,418	11,029	8,476	8,120
Other cash resources	**1,394**	787	1,097	1,571	1,487	2,111	880	189	1,109	807
Securities	**21,278**	25,617	27,331	26,249	19,347	13,958	11,774	9,620	6,892	7,330
Total U.S. dollar and other currencies liquid assets	**36,103**	41,529	49,707	44,154	47,780	34,675	29,072	20,838	16,477	16,257
Total liquid assets	**55,332**	64,971	67,309	63,195	74,034	60,796	53,336	41,194	35,409	33,869
Total liquid assets-to-total assets (%)	**23.1**	27.8	29.2	28.4	35.6	35.8	35.1	29.8	30.3	31.1
Pledged assets included in total liquid assets (a)	**33,706**	33,447	39,872	41,437	36,594	31,959	24,473	24,733	NA	NA

(a) Includes liquid assets pledged as security for securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities.

Table 6: Total Revenue Detail ($ millions, except as noted)

For the year ended October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Total Revenue										
Total revenue (teb)	**8,863**	8,664	7,928	7,270	7,167	6,227	5,666	5,196	4,861	4,442
Year-over-year growth (%)	**2.3**	9.3	9.0	1.4	15.1	9.9	9.0	6.9	9.4	11.2
Non-recurring items	**155**	226	(28)	–	–	–	–	–	–	6
Total revenue (teb) excluding non-recurring items	**8,708**	8,438	7,956	7,270	7,167	6,227	5,666	5,196	4,861	4,436
Year-over-year growth (%)	**3.2**	6.1	9.4	1.4	15.1	9.9	9.0	6.9	9.6	10.8
Net Interest Income										
Net interest income as reported	**4,499**	4,204	4,279	4,024	4,077	3,603	3,480	3,258	3,139	2,971
Taxable equivalent adjustment (teb)	**142**	134	138	128	109	108	84	67	68	67
Net interest income (teb)	**4,641**	4,338	4,417	4,152	4,186	3,711	3,564	3,325	3,207	3,038
Year-over-year growth (%)	**7.0**	(1.8)	6.4	(0.8)	12.8	4.1	7.2	3.7	5.6	11.1
Non-recurring items	**–**	–	–	–	–	–	–	–	–	6
Net interest income (teb) excluding non-recurring items	**4,641**	4,338	4,417	4,152	4,186	3,711	3,564	3,325	3,207	3,032
Year-over-year growth (%)	**7.0**	(1.8)	6.4	(0.8)	12.8	4.1	7.2	3.7	5.8	11.4
Margin										
Total average assets	**243,248**	234,944	226,714	227,450	196,721	158,316	144,115	122,234	113,387	104,591
Average net interest margin (%)	**1.91**	1.85	1.95	1.83	2.13	2.34	2.47	2.72	2.83	2.90
Average net interest margin excluding non-recurring items (%)	**1.91**	1.85	1.95	1.83	2.13	2.34	2.47	2.72	2.83	2.90
Average Canadian dollar margin (%)	**2.78**	2.70	2.82	2.52	2.70	2.94	3.39	3.48	3.44	3.65
Average U.S. dollar and other currencies margin (%)	**1.15**	1.01	1.19	1.17	1.48	1.58	1.22	1.59	1.94	1.84
Other Income										
Deposit and payment service charges	**670**	646	616	558	508	473	451	437	430	NA
Lending fees	**352**	322	329	290	240	194	186	180	145	NA
Capital market fees	**976**	1,069	841	869	919	760	495	313	238	NA
Card services	**204**	216	205	196	251	234	230	211	208	NA
Investment management and custodial fees	**336**	373	419	407	299	221	240	197	194	NA
Mutual fund revenues	**251**	232	207	199	155	87	53	56	30	NA
Trading revenues	**490**	388	295	40	276	277	225	226	202	NA
Securitization revenues	**331**	343	296	158	32	–	–	–	–	NA
Other fees and commissions										
Revenue from insurance-related activities	**125**	96	73	62	62	44	36	51	18	NA
Gains (losses) on disposal of premises and equipment	**(11)**	(9)	(1)	7	(5)	(22)	(26)	(12)	4	NA
Foreign exchange revenues other than trading	**127**	146	133	103	126	120	99	89	48	NA
Investment securities gains (losses) (a)	**123**	183	(85)	97	52	71	46	37	40	NA
Gains (losses) on sale of discontinued businesses (b)	**12**	114	27	–	–	–	–	–	–	NA
Other	**236**	207	156	132	66	57	67	86	97	NA
Total other fees and commissions	**612**	737	303	401	301	270	222	251	207	NA
Total other income	**4,222**	4,326	3,511	3,118	2,981	2,516	2,102	1,871	1,654	1,404
Year-over-year growth (%)	**(2.4)**	23.2	12.6	4.6	18.5	19.7	12.3	13.1	17.8	11.4
Other income as a % of total revenue	**47.6**	49.9	44.3	42.9	41.6	40.4	37.1	36.0	34.0	31.6
Total other income	**4,222**	4,326	3,511	3,118	2,981	2,516	2,102	1,871	1,654	1,404
Non-recurring items	**155**	226	(28)	–	–	–	–	–	–	–
Total other income excluding non-recurring items	**4,067**	4,100	3,539	3,118	2,981	2,516	2,102	1,871	1,654	1,404
Year-over-year growth (%)	**(0.8)**	15.8	13.5	4.6	18.5	19.7	12.3	13.1	17.8	9.5
Total other income as a % of total revenue	**46.7**	48.6	44.5	42.9	41.6	40.4	37.1	36.0	34.0	31.6

(a) Includes a $321 million gain on the sale of Bancomer and a write-down of $178 million of equity investments in CBOs in 2001, and a $112 million gain on the sale of Partners First in 2000.

(b) Includes a $12 million gain on the sale of branches in 2001, and a $40 million gain on the sale of branches and a $74 million gain on the sale of Corporate Trust in 2000. Also includes a $27 million gain on the sale of Global Custody in 1999.

Table 7: Non-Interest Expense and Expense-to-Revenue Ratios ($ millions, except as noted)

For the year ended October 31	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992
Non-Interest Expense Detail										
Salaries	**2,857**	2,800	2,532	2,370	2,284	1,972	1,758	1,567	1,455	1,348
Employee benefits	**355**	265	288	204	251	238	241	228	209	201
Total salaries and employee benefits	**3,212**	3,065	2,820	2,574	2,535	2,210	1,999	1,795	1,664	1,549
Premises and equipment										
Rental of real estate	**134**	130	145	147	149	139	136	125	123	114
Premises, furniture and fixtures	**289**	272	275	256	234	215	206	188	177	170
Property taxes	**52**	47	52	51	40	40	41	39	40	37
Computers and equipment	**678**	622	651	518	493	333	296	248	240	234
Total premises and equipment	**1,153**	1,071	1,123	972	916	727	679	600	580	555
Communications	**194**	259	268	266	246	219	208	180	165	167
Other expenses (a)										
Business and capital taxes	**103**	110	129	134	128	116	110	95	92	82
Professional fees	**288**	335	343	320	250	173	141	112	64	63
Travel and business development	**248**	236	227	234	238	199	161	144	122	112
Other	**430**	202	216	261	226	251	239	195	199	201
Total other expenses	**1,069**	883	915	949	842	739	651	546	477	458
Amortization of intangible assets	**43**	23	21	24	28	18	15	16	11	20
Special charge	**–**	–	–	–	–	–	–	71	–	–
Business process improvement initiative charge	**–**	–	–	–	–	–	60	–	–	–
Total non-interest expense before restructuring charge	**5,671**	5,301	5,147	4,785	4,567	3,913	3,612	3,208	2,897	2,749
Restructuring charge	**–**	(43)	141	–	–	–	–	–	–	–
Total non-interest expense	**5,671**	5,258	5,288	4,785	4,567	3,913	3,612	3,208	2,897	2,749
Non-Interest Expense Summary										
Total non-interest expense	**5,671**	5,258	5,288	4,785	4,567	3,913	3,612	3,208	2,897	2,749
Less: Non-recurring items	**–**	(43)	141	–	75	23	60	71	–	18
Total non-interest expense excluding non-recurring items	**5,671**	5,301	5,147	4,785	4,492	3,890	3,552	3,137	2,897	2,731
Year-over-year growth (%)										
Total	**7.8**	(0.6)	10.5	4.8	16.7	8.4	12.6	10.7	5.4	6.1
Excluding non-recurring items	**7.0**	3.0	7.6	6.5	15.5	9.5	13.2	8.3	6.1	6.5
Government Levies and Taxes (b)										
Government levies other than income taxes										
Payroll levies	**148**	133	127	128	123	109	106	95	88	83
Property taxes	**52**	47	52	51	40	40	41	39	40	37
Provincial capital taxes	**93**	100	121	120	104	89	84	71	71	59
Business taxes	**10**	10	8	14	24	27	26	24	21	23
Goods and services tax and sales tax	**126**	125	118	125	114	101	88	70	64	61
Total government levies other than income taxes	**429**	415	426	438	405	366	345	299	284	263
Provision for income taxes reported in:										
Statement of income										
– Provision	**501**	989	736	810	845	758	662	560	487	416
– Amortization of goodwill	**(7)**	(5)	(6)	(6)	(5)	(1)	–	–	–	–
Statement of retained earnings	**(174)**	(153)	158	(237)	(92)	10	9	(23)	(46)	(70)
Total income taxes	**320**	831	888	567	748	767	671	537	441	346
Total government levies and taxes	**749**	1,246	1,314	1,005	1,153	1,133	1,016	836	725	609
Total government levies and taxes as a % of net income before taxes and government levies	**31.3**	38.3	51.8	38.8	45.2	49.4	51.0	49.6	49.0	46.2
Effective tax rate (teb)	**29.1**	36.9	37.6	39.8	41.0	41.5	41.9	42.4	43.0	42.2
Productivity Analysis										
Expense-to-revenue ratio (%)	**64.0**	60.7	66.7	65.8	63.7	62.8	63.7	61.7	59.6	61.9
Excluding non-recurring items (%)	**65.1**	62.8	64.7	65.8	62.7	62.5	62.7	60.4	59.6	61.6

(a) Processing fees paid to Symcor are included in other expenses effective in 2001.

(b) Government levies are included in various non-interest expense categories.

Table 8: Average Balances and Average Interest Rates (teb) of Assets and Liabilities ($ millions, except as noted)

For the year ended October 31	2001 Average balances	2001 Average interest rate (%)	2001 Interest income/ expense	2000 Average balances	2000 Average interest rate (%)	2000 Interest income/ expense	1999 Average balances	1999 Average interest rate (%)	1999 Interest income/ expense
Assets									
Canadian Dollars									
Deposits with other banks	**2,165**	**4.74**	**104**	2,272	5.50	125	1,442	5.08	73
Securities	**20,308**	**5.14**	**1,098**	19,972	5.98	1,194	13,730	6.17	847
Loans									
Residential mortgages (a)	**35,512**	**6.50**	**2,307**	35,247	6.48	2,283	33,124	6.42	2,127
Non-residential mortgages	**2,167**	**7.18**	**155**	2,142	7.22	155	2,017	7.14	144
Consumer instalment and other personal loans	**14,159**	**8.01**	**1,134**	14,061	8.42	1,184	13,260	7.75	1,027
Credit card loans	**1,443**	**10.03**	**145**	1,251	9.98	125	932	10.20	95
Loans to businesses and governments (b)	**27,908**	**6.58**	**1,836**	26,270	6.92	1,817	24,881	6.81	1,694
Total loans	**81,189**	**6.87**	**5,577**	78,971	7.05	5,564	74,214	6.85	5,087
Other non-interest bearing assets	**9,595**			14,477			16,445		
Total Canadian dollars	**113,257**	**5.99**	**6,779**	115,692	5.95	6,883	105,831	5.68	6,007
U.S. Dollar and Other Currencies									
Deposits with other banks	**15,583**	**5.07**	**790**	17,792	5.17	920	21,116	4.71	996
Securities	**23,826**	**6.13**	**1,460**	26,722	6.71	1,793	26,781	6.49	1,738
Loans									
Residential mortgages (a)	**4,709**	**6.70**	**316**	3,726	6.71	251	3,479	6.65	232
Non-residential mortgages	**1,675**	**8.00**	**134**	1,391	8.11	113	1,234	8.26	102
Consumer instalment and other personal loans	**4,231**	**8.13**	**344**	3,352	8.45	283	3,027	7.87	238
Credit card loans	**35**	**4.75**	**2**	28	4.65	1	22	4.04	1
Loans to businesses and governments (b)	**47,093**	**7.04**	**3,317**	47,871	8.76	4,193	53,620	7.46	3,998
Total loans	**57,743**	**7.12**	**4,113**	56,368	8.59	4,841	61,382	7.45	4,571
Other non-interest bearing assets	**32,839**			18,370			11,604		
Total U.S. dollar and other currencies	**129,991**	**4.89**	**6,363**	119,252	6.33	7,554	120,883	6.04	7,305
Total All Currencies									
Total assets and interest income	**243,248**	**5.40**	**13,142**	234,944	6.15	14,437	226,714	5.87	13,312
Liabilities									
Canadian Dollars									
Deposits									
Banks	**1,809**	**3.88**	**72**	2,364	4.09	96	2,597	3.82	99
Businesses and governments	**31,483**	**3.84**	**1,210**	31,432	4.02	1,264	23,883	3.07	734
Individuals	**46,439**	**3.49**	**1,620**	45,697	3.62	1,652	43,943	3.19	1,400
Total deposits	**79,731**	**3.64**	**2,902**	79,493	3.79	3,012	70,423	3.17	2,233
Subordinated debt and other interest bearing liabilities	**14,242**	**5.14**	**733**	12,470	5.95	743	12,856	6.17	793
Other non-interest bearing liabilities	**8,050**			12,682			12,089		
Total Canadian dollars	**102,023**	**3.56**	**3,635**	104,645	3.59	3,755	95,368	3.17	3,026
U.S. Dollar and Other Currencies									
Deposits									
Banks	**21,448**	**4.90**	**1,051**	26,679	5.66	1,511	27,262	4.63	1,261
Businesses and governments	**35,663**	**4.27**	**1,522**	36,863	5.96	2,197	36,824	5.87	2,161
Individuals	**18,442**	**3.84**	**708**	16,409	4.30	706	16,152	4.17	673
Total deposits	**75,553**	**4.34**	**3,281**	79,951	5.52	4,414	80,238	5.10	4,095
Subordinated debt and other interest bearing liabilities	**25,843**	**6.13**	**1,585**	26,360	7.32	1,930	32,189	5.51	1,774
Other non-interest bearing liabilities	**28,285**			12,574			8,083		
Total U.S. dollar and other currencies	**129,681**	**3.75**	**4,866**	118,885	5.34	6,344	120,510	4.87	5,869
Total All Currencies									
Total liabilities and interest expense	**231,704**	**3.67**	**8,501**	223,530	4.52	10,099	215,878	4.12	8,895
Shareholders' equity	**11,544**			11,414			10,836		
Total liabilities, interest expense and shareholders' equity	**243,248**	**3.49**	**8,501**	234,944	4.30	10,099	226,714	3.92	8,895
Net interest spread and net interest income		**1.91**	**4,641**		1.85	4,338		1.95	4,417

(a) Residential mortgages include both individual residential mortgages and commercial residential mortgages

(b) Includes securities purchased under resale agreements.

Table 9: Volume/Rate Analysis of Changes in Net Interest Income (teb) ($ millions)

For the year ended October 31	2001/2000 Increase (decrease) due to change in: Average balance	Average rate	Total	2000/1999 Increase (decrease) due to change in: Average balance	Average rate	Total
Assets						
Canadian Dollars						
Deposits with other banks	(5)	(16)	(21)	42	10	52
Securities	19	(115)	(96)	385	(38)	347
Loans						
Residential mortgages	18	6	24	135	21	156
Non-residential mortgages	1	(1)	–	9	2	11
Consumer instalment and other personal loans	8	(58)	(50)	63	94	157
Credit card loans	19	1	20	33	(3)	30
Loans to businesses and governments	114	(95)	19	95	28	123
Total loans	160	(147)	13	335	142	477
Other non-interest bearing assets	–			–		
Change in Canadian dollar interest income	174	(278)	(104)	762	114	876
U.S. Dollar and Other Currencies						
Deposits with other banks	(114)	(16)	(130)	(157)	81	(76)
Securities	(195)	(138)	(333)	(3)	58	55
Loans						
Residential mortgages	66	(1)	65	17	2	19
Non-residential mortgages	23	(2)	21	13	(2)	11
Consumer instalment and other personal loans	75	(14)	61	25	20	45
Credit card loans	1	–	1	–	–	–
Loans to businesses and governments	(68)	(808)	(876)	(429)	624	195
Total loans	97	(825)	(728)	(374)	644	270
Other non-interest bearing assets	–			–		
Change in U.S. dollar and other currencies interest income	(212)	(979)	(1,191)	(534)	783	249
Total All Currencies						
Change in total interest income	(38)	(1,257)	(1,295)	228	897	1,125
Liabilities						
Canadian Dollars						
Deposits						
Banks	(20)	(4)	(24)	(9)	6	(3)
Businesses and governments	2	(56)	(54)	232	298	530
Individuals	28	(60)	(32)	55	197	252
Total deposits	10	(120)	(110)	278	501	779
Subordinated debt and other interest bearing liabilities	105	(115)	(10)	(23)	(27)	(50)
Other non-interest bearing liabilities	–			–		
Change in Canadian dollar interest expense	115	(235)	(120)	255	474	729
U.S. Dollar and Other Currencies						
Deposits						
Banks	(296)	(164)	(460)	(26)	276	250
Businesses and governments	(72)	(603)	(675)	3	33	36
Individuals	88	(86)	2	11	22	33
Total deposits	(280)	(853)	(1,133)	(12)	331	319
Subordinated debt and other interest bearing liabilities	(37)	(308)	(345)	(322)	478	156
Other non-interest bearing liabilities	–			–		
Change in U.S. dollar and other currencies interest expense	(317)	(1,161)	(1,478)	(334)	809	475
Total All Currencies						
Change in total interest expense	(202)	(1,396)	(1,598)	(79)	1,283	1,204
Change in total net interest income	164	139	303	307	(386)	(79)

Table 10: Net Loans and Acceptances – Segmented Information ($ millions)

As at October 31	Canada (a)					United States (a)					Other countries (a)				
	2001	2000	1999	1998	1997	**2001**	2000	1999	1998	1997	**2001**	2000	1999	1998	1997
Individuals															
Residential mortgages (b)	**33,741**	32,342	31,858	29,823	30,995	**5,000**	4,211	3,512	3,502	2,594	**–**	–	–	–	–
Cards	**1,521**	1,382	1,144	783	877	**6**	25	16	14	1,035	**–**	–	–	–	–
Personal loans	**14,258**	14,395	13,900	12,988	12,007	**4,841**	3,638	3,004	3,098	2,664	**–**	–	–	–	–
Total loans to individuals	**49,520**	48,119	46,902	43,594	43,879	**9,847**	7,874	6,532	6,614	6,293	**–**	–	–	–	–
Commercial, corporate and institutional															
Diversified commercial	**35,847**	35,886	25,083	27,097	26,152	**33,881**	31,818	38,507	28,683	23,497	**1,559**	3,300	3,434	4,127	3,098
Securities purchased under resale agreements	**8,397**	6,693	8,523	6,350	7,679	**6,557**	9,615	11,202	13,715	10,721	**–**	–	5,365	7,455	117
Total commercial, corporate and institutional	**44,244**	42,579	33,606	33,447	33,831	**40,438**	41,433	49,709	42,398	34,218	**1,559**	3,300	8,799	11,582	3,215
Total	**93,764**	90,698	80,508	77,041	77,710	**50,285**	49,307	56,241	49,012	40,511	**1,559**	3,300	8,799	11,582	3,215
General allowance	**(855)**	(930)	(820)	(735)	(625)	**(325)**	(150)	(150)	(150)	(150)	**–**	–	–	–	–
Designated lesser-developed countries (LDC)	**–**	–	–	–	–	**–**	–	–	–	–	**337**	222	205	288	263
Total net loans and acceptances	**92,909**	89,768	79,688	76,306	77,085	**49,960**	49,157	56,091	48,862	40,361	**1,896**	3,522	9,004	11,870	3,478

Table 11: Net Impaired Loans and Acceptances – Segmented Information ($ millions, except as noted)

As at October 31	Canada (a)					United States (a)					Other countries (a)				
	2001	2000	1999	1998	1997	**2001**	2000	1999	1998	1997	**2001**	2000	1999	1998	1997
Individuals															
Residential mortgages	**126**	138	129	105	94	**–**	–	–	–	–	**–**	–	–	–	–
Consumer instalments and other personal loans	**54**	48	48	34	22	**2**	–	–	–	–	**–**	–	–	–	–
Total loans to individuals	**180**	186	177	139	116	**2**	–	–	–	–	**–**	–	–	–	–
Diversified commercial (c)	**354**	335	344	236	143	**692**	432	135	108	158	**17**	31	58	60	–
General allowance	**(855)**	(930)	(820)	(735)	(625)	**(325)**	(150)	(150)	(150)	(150)	**–**	–	–	–	–
Total net impaired loans and acceptances (NIL)	**(321)**	(409)	(299)	(360)	(366)	**369**	282	(15)	(42)	8	**17**	31	58	60	–
Condition Ratios															
Gross impaired loans and acceptances (GIL) as a % of equity and allowance for credit losses	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA
NIL as a % of net loans and acceptances	**(0.35)**	(0.46)	(0.38)	(0.47)	(0.47)	**0.74**	0.57	(0.03)	(0.09)	0.02	**0.90**	0.88	0.64	0.51	–
NIL as a % of net loans and acceptances															
Individuals (d)	**0.36**	0.39	0.38	0.32	0.26	**0.02**	–	–	–	–	**–**	–	–	–	–
Diversified commercial (e)	**0.99**	0.93	1.37	0.87	0.55	**2.04**	1.36	0.35	0.38	0.67	**1.09**	0.94	1.69	1.45	–

(a) Geographic location is based on the ultimate risk of the underlying asset. Provincial location is based on the booking location and/or customer residency.
(b) Excludes residential mortgages classified as commercial corporate loans (2001 – $3.2 billion, 2000 – $2.9 billion, 1999 – $2.8 billion, 1998 – $2.5 billion, 1997 – $2.0 billion).
(c) No allowance or impaired exposure for securities purchased under resale agreements.
(d) NIL to individuals as a percentage of net loans to individuals.
(e) NIL to diversified commercial borrowers as a percentage of net loans to diversified commercial borrowers.
(f) Excludes LDC reservations in excess of impaired loans (2001 – $0, 2000 – $0, 1999 – $79 million, 1998 – $98 million, 1997 – $93 million).
(g) Includes allowance of U.S. subsidiary in excess of impaired loans.
(h) Loans and acceptances returning to performing status, sales and repayments.
(i) Write-offs on designated LDC include losses on sales of performing assets that were charged directly against the allowance (2001 – $0, 2000 – $45 million, 1999 – $0, 1998 – $0, 1997 – $3 million).
(j) Excludes ACL for off-balance sheet exposure. Also excludes LDC reservations in excess of impaired loans (2001 – $0, 2000 – $0, 1999 – $79 million, 1998 – $98 million, 1997 – $93 million).

Total				
2001	2000	1999	1998	1997
38,741	36,553	35,370	33,325	33,589
1,527	1,407	1,160	797	1,912
19,099	18,033	16,904	16,086	14,671
59,367	55,993	53,434	50,208	50,172
71,287	71,004	67,024	59,907	52,747
14,954	16,308	25,090	27,520	18,517
86,241	87,312	92,114	87,427	71,264
145,608	143,305	145,548	137,635	121,436
(1,180)	(1,080)	(970)	(885)	(775)
337	222	205	288	263
144,765	142,447	144,783	137,038	120,924

Total				
2001	2000	1999	1998	1997
126	138	129	105	94
56	48	48	34	22
182	186	177	139	116
1,063	798	537	404	301
(1,180)	(1,080)	(970)	(885)	(775)
65	(96)	(256)	(342)	(358)
14.17	10.51	8.53	6.66	7.65
0.05	(0.07)	(0.18)	(0.25)	(0.30)
0.31	0.33	0.33	0.28	0.23
1.49	1.12	0.80	0.67	0.57

Table 12: Net Loans and Acceptances – Segmented Information ($ millions)

As at October 31	**2001**	2000	1999	1998	1997
Net Loans and Acceptances by Province (a)					
Atlantic provinces	**4,644**	4,460	4,137	4,250	3,815
Quebec	**13,685**	14,602	12,304	11,714	10,179
Ontario	**49,554**	43,794	37,317	34,421	38,456
Prairie provinces	**13,365**	14,722	13,941	13,741	13,133
British Columbia and Territories	**12,516**	13,120	12,809	12,915	12,127
Total loans and acceptances in Canada (b)	**93,764**	90,698	80,508	77,041	77,710
Net Diversified Commercial Loans by Industry					
Financial institutions	**16,081**	13,847	13,598	9,468	8,854
Commercial mortgages	**7,352**	6,612	6,254	5,626	4,552
Construction (non-real estate)	**931**	1,556	1,782	1,056	1,011
Commercial real estate	**3,816**	3,895	3,632	3,601	3,034
Manufacturing	**12,756**	14,635	12,785	12,460	9,267
Mining/Energy	**3,176**	3,847	4,011	4,086	4,058
Service industries	**6,663**	7,107	6,944	6,600	6,407
Retail trade	**3,181**	3,173	3,217	2,556	2,752
Wholesale trade	**2,912**	3,434	3,984	3,912	3,408
Agriculture	**2,659**	2,608	2,772	2,471	2,036
Transportation/Utilities	**3,902**	4,532	3,880	3,686	3,227
Communications	**3,262**	3,262	1,994	2,200	2,332
Other	**4,596**	2,496	2,171	2,185	1,809
Total diversified commercial	**71,287**	71,004	67,024	59,907	52,747

Table 13: Net Impaired Loans and Acceptances – Segmented Information ($ millions)

As at October 31	**2001**	2000	1999	1998	1997
Net Impaired Diversified Commercial Loans					
Financial institutions	**25**	108	23	8	1
Commercial mortgages	**39**	19	19	15	24
Construction (non-real estate)	**47**	6	3	4	6
Commercial real estate	**18**	27	54	122	148
Manufacturing	**170**	143	48	41	19
Mining/Energy	**81**	97	188	36	30
Service industries	**102**	109	127	47	44
Retail trade	**120**	89	21	17	9
Wholesale trade	**47**	11	7	9	9
Agriculture	**10**	17	18	15	12
Transportation/Utilities	**321**	138	64	71	11
Communications	**79**	13	25	23	5
Other (f) (g)	**4**	21	(60)	(4)	(17)
Total diversified commercial (c)	**1,063**	798	537	404	301

Table 14: Changes in Impaired Loans and Allowances ($ millions)

As at or for the year ended October 31	**2001**	2000	1999	1998	1997
Gross impaired loans and acceptances, beginning of year	**1,501**	1,092	824	787	1,397
Additions to impaired loans and acceptances	**2,041**	1,106	1,084	621	660
Reductions in impaired loans and acceptances (h)	**(830)**	(446)	(623)	(389)	(936)
Net new additions (reductions)	**1,211**	660	461	232	(276)
Write-offs	**(698)**	(251)	(193)	(195)	(334)
Gross impaired loans and acceptances, end of year	**2,014**	1,501	1,092	824	787
Allowance for credit losses (ACL) (b), beginning of year	**1,597**	1,348	1,166	1,145	1,033
Increases – specific allowance	**950**	390	290	106	169
Increases – general allowance	**100**	110	85	110	200
Transfer of allowance	**–**	–	–	–	100
Write-offs (i)	**(698)**	(251)	(193)	(195)	(357)
Allowance for credit losses (j), end of year	**1,949**	1,597	1,348	1,166	1,145
Net impaired loans and acceptances (NIL), beginning of year	**(96)**	(256)	(342)	(358)	364
Change in gross impaired loans and acceptances	**513**	409	268	37	(610)
Change in allowance for credit losses	**(352)**	(249)	(182)	(21)	(112)
Net impaired loans and acceptances, end of year	**65**	(96)	(256)	(342)	(358)

Table 15: Changes in Allowance for Credit Losses – Segmented Information ($ millions, except as noted)

As at October 31	Canada (a) 2001	2000	1999	1998	1997	United States (a) 2001	2000	1999	1998	1997	Other countries (a) 2001	2000	1999	1998	1997
Allowance for credit losses (ACL), beginning of year	**1,170**	963	868	895	737	**382**	335	268	246	290	**45**	129	136	98	116
Provision for credit losses	**402**	271	210	77	330	**570**	120	98	38	(55)	**8**	(33)	12	15	–
Transfer of allowance	**26**	68	–	(17)	–	**(15)**	(59)	–	–	–	**(11)**	(9)	–	17	–
Recoveries	**25**	30	22	29	43	**15**	14	25	35	115	**–**	–	–	–	–
Write-offs (b)	**(361)**	(164)	(131)	(116)	(216)	**(331)**	(42)	(47)	(76)	(118)	**(6)**	(45)	(15)	(3)	(23)
Other, including foreign exchange	**4**	2	(6)	–	1	**25**	14	(9)	25	14	**1**	3	(4)	9	5
ACL, end of year	**1,266**	1,170	963	868	895	**646**	382	335	268	246	**37**	45	129	136	98
Allocation of Write-offs by Market															
Individuals	**(144)**	(129)	(92)	(60)	(106)	**(13)**	(10)	(12)	(33)	(96)	**–**	–	–	–	–
Commercial, corporate and institutional	**(217)**	(35)	(39)	(56)	(110)	**(318)**	(32)	(35)	(43)	(22)	**(6)**	–	–	–	–
Designated lesser-developed countries (LDC)	**–**	–	–	–	–	**–**	–	–	–	–	**–**	(45)	(15)	(3)	(23)
Allocation of Recoveries by Market															
Individuals	**19**	18	17	16	11	**6**	5	5	7	10	**–**	–	–	–	–
Commercial, corporate and institutional	**6**	12	5	13	32	**9**	9	20	28	105	**–**	–	–	–	–
Net write-offs as a % of average loans and acceptances	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA

Table 16: Allocation of Allowance for Credit Losses – Segmented Information ($ millions, except as noted)

As at October 31	Canada (a) 2001	2000	1999	1998	1997	United States (a) 2001	2000	1999	1998	1997	Other countries (a) 2001	2000	1999	1998	1997
Individuals															
Residential mortgages	**6**	6	4	4	9	**–**	–	–	–	–	**–**	–	–	–	–
Consumer instalments and other personal loans	**6**	3	5	4	5	**2**	2	3	5	6	**–**	–	–	–	–
Total loans to individuals	**12**	9	9	8	14	**2**	2	3	5	6	**–**	–	–	–	–
Diversified commercial (c)	**399**	231	134	125	255	**319**	230	182	113	90	**37**	45	44	24	–
General allowance	**855**	930	820	735	625	**325**	150	150	150	150	**–**	–	–	–	–
Designated lesser-developed countries (LDC)															
Country risk allowance	**–**	–	–	–	–	**–**	–	–	–	–	**–**	–	85	104	98
Off-balance sheet	**–**	–	–	–	1	**–**	–	–	–	–	**–**	–	–	8	–
Allowance for credit losses (ACL)	**1,266**	1,170	963	868	895	**646**	382	335	268	246	**37**	45	129	136	98
Coverage Ratios															
ACL as a % of gross impaired loans and acceptances (GIL)															
Total	**134.0**	153.7	145.0	170.9	169.3	**63.6**	57.5	104.7	118.6	96.9	**68.5**	59.2	131.6	142.2	100.0
Individuals (d)	**6.2**	4.6	4.8	5.4	10.8	**50.0**	100.0	100.0	100.0	100.0	**–**	–	–	–	–
Diversified commercial (e)	**53.0**	40.8	28.0	34.6	64.1	**31.6**	34.8	57.4	51.1	36.3	**68.5**	59.2	47.8	28.6	–
Diversified LDC (f)	**na**	na	na	na	na	**na**	na	na	na	na	**na**	na	100.0	100.0	100.0

(a) Geographic location is based on the ultimate risk of the underlying asset. Provincial location is based on the booking location and/or customer residency.
(b) Write-offs on designated lesser-developed countries include losses on sales of performing assets that were charged directly against the allowance (2001 – $0, 2000 – $45 million, 1999 – $0, 1998 – $0, 1997 – $3 million)
(c) No allowance or impaired exposure for securities purchased under resale agreements.
(d) ACL on loans to individuals as a percentage of gross impaired loans to individuals.
(e) ACL on loans to diversified borrowers as a percentage of gross impaired loans to diversified commercial borrowers.
(f) Excludes LDC reservations in excess of impaired loans (2001 – $0, 2000 – $0, 1999 – $79 million, 1998 – $98 million, 1997 – $93 million).
(g) No provision for securities purchased under resale agreements.

Total				
2001	2000	1999	1998	1997
1,597	1,427	1,272	1,239	1,143
980	358	320	130	275
–	–	–	–	–
40	44	47	64	158
(698)	(251)	(193)	(195)	(357)
30	19	(19)	34	20
1,949	1,597	1,427	1,272	1,239
(157)	(139)	(104)	(93)	(202)
(541)	(67)	(74)	(99)	(132)
–	(45)	(15)	(3)	(23)
25	23	22	23	21
15	21	25	41	137
0.4	0.1	0.1	0.1	0.2

Total				
2001	2000	1999	1998	1997
6	6	4	4	9
8	5	8	9	11
14	11	12	13	20
755	506	360	262	345
1,180	1,080	970	885	775
–	–	85	104	98
–	–	–	8	1
1,949	1,597	1,427	1,272	1,239
96.8	106.4	130.6	153.3	157.2
7.1	5.6	6.3	8.6	14.7
41.5	38.8	40.1	39.3	53.4
na	na	100.0	100.0	100.0

Table 17: Provision for Credit Losses – Segmented Information ($ millions)

For the year ended October 31	**2001**	2000	1999	1998	1997
Individuals					
Residential mortgages	**6**	5	7	7	7
Cards	**48**	35	26	26	138
Personal loans	**74**	73	48	30	32
Total loans to individuals	**128**	113	81	63	177
Diversified commercial					
Financial institutions	**64**	(6)	7	12	(26)
Commercial mortgages	**10**	(1)	–	–	1
Construction (non-real estate)	**28**	(2)	3	3	–
Commercial real estate	**(1)**	1	(6)	(66)	(146)
Manufacturing	**280**	93	27	7	8
Mining/Energy	**(17)**	(3)	30	(3)	(24)
Service industries	**18**	14	46	(19)	19
Retail trade	**74**	20	6	(5)	–
Wholesale trade	**114**	3	10	1	7
Agriculture	**(1)**	(10)	2	(5)	7
Transportation/Utilities	**55**	67	8	20	(11)
Communications	**129**	–	5	13	36
Other	**(1)**	1	16	(1)	27
Total commercial, corporate and institutional (g)	**752**	177	154	(43)	(102)
Net charge to earnings for general provision	**100**	110	85	110	200
Designated lesser-developed countries	**–**	(42)	–	–	–
Total provision for credit losses	**980**	358	320	130	275

Table 18: Allowance for Credit Losses – Segmented Information ($ millions)

As at October 31	**2001**	2000	1999	1998	1997
Diversified Commercial Specific Allowance by Industry					
Financial institutions	**26**	40	35	27	28
Commercial mortgages	**6**	4	4	5	6
Construction (non-real estate)	**31**	5	4	4	23
Commercial real estate	**12**	31	28	35	71
Manufacturing	**309**	128	37	62	44
Mining/Energy	**18**	55	44	4	8
Service industries	**48**	71	56	31	56
Retail trade	**59**	28	7	8	19
Wholesale trade	**80**	11	8	13	12
Agriculture	**3**	6	6	4	12
Transportation/Utilities	**96**	94	26	20	8
Communications	**59**	14	13	8	15
Other	**8**	19	92	41	43
Total diversified commercial specific allowance (c)	**755**	506	360	262	345

Table 19: Interest Rate Gap Position ($ millions, except as noted)

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	2 to 5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Effective interest rate (%)	Total
Canadian Dollars												
Assets												
Cash resources	1,973	–	–	1,973	2.79	418	–	–	–	(383)	–	2,008
Securities	14,977	30	182	15,189	6.13	903	8.54	245	7.92	61	na	16,398
Loans	45,844	4,300	7,134	57,278	5.29	22,311	6.74	3,452	6.58	57	na	83,098
Other	(4,013)	86	171	(3,756)	na	1,368	na	–	na	7,985	na	5,597
Total assets	58,781	4,416	7,487	70,684		25,000		3,697		7,720		107,101
Liabilities												
Deposits	36,132	4,982	9,490	50,604	2.91	29,696	2.59	569	6.96	–	na	80,869
Subordinated debt	–	250	600	850	6.53	1,625	7.40	690	8.41	–	na	3,165
Other	3,112	21	42	3,175	na	340	na	1,150	na	7,720	na	12,385
Shareholders' equity	–	–	–	–	na	400	na	650	na	9,632	na	10,682
Total liabilities and shareholders' equity	39,244	5,253	10,132	54,629		32,061		3,059		17,352		107,101
On-balance sheet gap position	19,537	(837)	(2,645)	16,055		(7,061)		638		(9,632)		–
Off-balance sheet gap position	(15,708)	445	3,282	(11,981)		10,681		1,300		–		–
Total Interest Rate Gap Position												
2001	3,829	(392)	637	4,074		3,620		1,938		(9,632)		–
2000	2,404	1,355	565	4,324		4,801		1,110		(10,235)		–
1999	(117)	1,103	(5,078)	(4,092)		11,042		2,485		(9,435)		–
1998	2,076	1,437	(7,771)	(4,258)		11,599		1,479		(8,820)		–
1997	(1,033)	516	(2,981)	(3,498)		10,159		988		(7,649)		–
U.S. Dollar and Other Currencies												
Assets												
Cash resources	7,567	3,339	4,009	14,915	4.20	950	1.29	400	–	(617)	–	15,648
Securities	5,673	1,234	2,574	9,481	4.10	7,501	5.01	4,301	5.51	(5)	na	21,278
Loans	41,738	1,373	1,721	44,832	4.30	7,364	6.94	1,490	7.22	45	na	53,731
Other	(667)	152	796	281	na	4,479	na	311	na	36,580	na	41,651
Total assets	54,311	6,098	9,100	69,509		20,294		6,502		36,003		132,308
Liabilities												
Deposits	52,055	5,670	4,562	62,287	2.87	6,974	3.05	4,160	0.10	–	na	73,421
Subordinated debt	556	–	–	556	2.62	476	6.10	477	7.80	–	na	1,509
Other	18,697	38	870	19,605	na	1,233	na	397	na	36,143	na	57,378
Shareholders' equity	–	–	–	–	na	–	na	–	na	–	na	–
Total liabilities and shareholders' equity	71,308	5,708	5,432	82,448		8,683		5,034		36,143		132,308
On-balance sheet gap position	(16,997)	390	3,668	(12,939)		11,161		1,468		(140)		–
Off-balance sheet gap position	4,012	1,193	(128)	5,077		(3,478)		(1,599)		–		–
Total Interest Rate Gap Position												
2001	(12,985)	1,583	3,540	(7,862)		8,133		(131)		(140)		–
2000	(10,841)	5,162	838	(4,841)		3,834		575		432		–
1999	(7,039)	(7,764)	2,969	(11,834)		11,478		(57)		413		–
1998	(12,524)	731	3,258	(8,535)		7,680		520		335		–
1997	(19,243)	3,155	10,572	(5,516)		4,491		214		811		–

Gap Position

The determination of the interest rate sensitivity or gap position, which is based upon the earlier of the repricing or maturity date of assets, liabilities and derivatives used to manage interest rate risk, by necessity encompasses numerous assumptions.

The gap position presented is as at October 31 of each year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based upon customer preferences and the application of the Bank's asset and liability management policies.

The assumptions for 2001 were as follows:

Deposits/Liabilities

Interest bearing non-maturity deposits on which the interest rates have historically moved in reference to a specific interest rate basis, such as prime, and which are above the minimum interest committed, are reported as interest sensitive in the 0 to 3 months category. Such deposits may be sensitive to declining rates only to the extent of the minimum interest rate committed. When they no longer demonstrate correlation with market interest rate movements, they are reported in time periods based upon expected balance behaviour.

Term deposits and investment certificates are reported based upon scheduled maturity and estimated redemption based upon historical behaviour.

Fixed rate non-maturity liabilities and non-interest bearing non-maturity liabilities are reported based upon historical account balance behaviour.

Capital

Common Shareholders' Equity is reported as non-interest sensitive.

Assets

Fixed term assets such as residential mortgages and consumer loans are reported based upon the scheduled repayments and estimated prepayments based upon historical behaviour.

Trading assets are reported in the 0 to 3 months category.

Fixed rate non-maturity assets and non-interest bearing non-maturity assets are reported based upon historical balance behaviour.

Yields

Yields are based upon the contractual interest rate in effect for the assets or liabilities on the reporting date.

Table 20: Risk-Weighted Assets ($ millions, except as noted)

As at October 31	Balance	Credit risk equivalent	Risk weighting %	2001 Risk-weighted balance	2000 Risk-weighted balance
Balance sheet items					
Cash resources	**17,656**	**3,184**	**0–20**	**3,184**	3,511
Securities	**37,676**	**12,964**	**0–100**	**7,705**	8,596
Mortgages	**46,097**	**14,838**	**0–100**	**14,838**	12,570
Other loans and acceptances	**98,668**	**72,799**	**0–100**	**72,798**	71,247
Other assets	**39,312**	**8,272**	**0–100**	**8,272**	8,842
Total balance sheet items	**239,409**	**112,057**		**106,797**	104,766
Off-balance sheet items					
Guarantees and standby letters of credit	**10,216**	**8,750**	**0–100**	**6,841**	8,320
Securities lending	**584**	**421**	**0–100**	**319**	156
Documentary and commercial letters of credit	**588**	**118**	**0–100**	**63**	113
Commitments to extend credit:					
Original maturity of one year and under	**69,428**	**–**	**–**	**–**	–
Original maturity of over one year	**25,001**	**12,500**	**0–100**	**10,155**	11,533
Derivative financial instruments	**2,563,285**	**15,523**	**0–50**	**5,708**	4,817
Total off-balance sheet items	**2,669,102**	**37,312**		**23,086**	24,939
Total risk-weighted assets – credit risk				**129,883**	129,705
Total risk-weighted assets – market risk				**5,885**	4,655
Total risk-weighted assets				**135,768**	134,360
Total risk-weighted assets – U.S. basis				**139,060**	139,865

Table 21: Capital Adequacy ($ millions, except as noted)

As at October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Canadian Basis										
Tier 1 – Common shareholders' equity	**9,632**	10,260	9,313	8,650	7,629	6,729	6,174	5,678	4,834	4,332
Non-cumulative preferred shares	**1,050**	1,681	1,668	1,958	1,274	857	858	860	852	832
Innovative Tier 1 capital	**1,150**	350	–	–	–	–	–	–	–	–
Non-controlling interest in subsidiaries	**32**	20	27	40	80	101	121	144	66	72
Goodwill	**(798)**	(447)	(430)	(494)	(521)	(557)	(411)	(450)	(159)	(176)
Tier 1 Capital	**11,066**	11,864	10,578	10,154	8,462	7,130	6,742	6,232	5,593	5,060
Tier 2 – Non-cumulative preferred shares	**397**	–	–	–	–	–	–	–	–	–
Subordinated debt	**4,133**	4,550	4,522	4,670	3,582	3,179	2,268	1,999	2,248	1,650
General allowance for credit losses (a)	**1,180**	1,007	970	873	775	–	–	–	–	–
Tier 2 Capital	**5,710**	5,557	5,492	5,543	4,357	3,179	2,268	1,999	2,248	1,650
Less: First loss protection	**325**	511	315	323	113	na	na	na	na	na
Investment in non-consolidated subsidiaries/substantial investments	**–**	821	1,010	858	697	625	–	–	–	28
Total capital	**16,451**	16,089	14,745	14,516	12,009	9,684	9,010	8,231	7,841	6,682
Risk-weighted assets	**135,768**	134,360	136,964	139,782	124,348	106,267	96,075	86,589	76,074	74,964
Risk-weighted capital ratios (%)										
Tier 1	**8.15**	8.83	7.72	7.26	6.80	6.71	7.02	7.20	7.35	6.75
Total	**12.12**	11.97	10.77	10.38	9.66	9.11	9.38	9.51	10.31	8.91
U.S. basis Tier 1	**7.87**	8.47	7.42	6.95	6.35	6.26	6.82	6.91	7.13	na
U.S. basis total	**11.69**	12.50	11.34	10.86	9.92	9.81	9.97	10.07	11.14	na
Assets-to-capital multiple	**14.2**	14.8	16.3	16.0	18.0	19.0	17.6	17.7	15.6	na
Equity to assets (%)	**5.1**	5.4	4.9	5.0	4.4	4.6	4.7	4.8	4.9	4.8

(a) General allowance included with the approval of OSFI beginning in 1997. OSFI approved the inclusion of the lesser of the balance of our general allowance for credit losses or 0.875% of risk-weighted assets (1997 and 1998 – 0.625%, 1999 to third quarter of 2001, inclusive – 0.75%).

Table 22: Average Deposits ($ millions, except as noted)

	2001		2000		1999	
	Average balance	**Average rate paid (%)**	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)
Deposits Booked in Canada						
Demand deposits – interest bearing	**6,589**	**2.80**	5,909	3.76	3,987	3.84
Demand deposits – non-interest bearing	**7,193**	**–**	6,621	–	5,837	–
Payable after notice	**28,807**	**2.61**	27,391	2.86	23,725	1.88
Payable on a fixed date	**49,253**	**4.93**	51,217	5.09	48,137	4.76
Total deposits booked in Canada	**91,842**	**3.66**	91,138		81,686	3.54
Deposits Booked in the U.S. and Other Countries						
U.S. demand deposits	**12,635**	**3.09**	12,310	4.08	12,560	3.37
Other U.S. deposits payable after notice or on a fixed date	**34,759**	**4.72**	32,496	6.43	32,381	6.14
Deposits booked in other countries	**16,048**	**4.86**	23,500	5.09	24,034	4.27
Total average deposits	**155,284**	**3.98**	159,444	4.66	150,661	4.20

As at October 31, 2001, 2000 and 1999, deposits by foreign depositors in our Canadian bank offices amounted to $8,668 million, $9,148 million and $9,934 million, respectively. As at October 31, 2001, 2000 and 1999, total deposits payable after notice included $20,021 million, $18,597 million and $14,262 million, respectively, of chequing accounts that would have been classified as demand deposits under U.S. reporting requirements. As at October 31, 2001, 2000 and 1999, total deposits payable on a fixed date included $21,362 million, $27,041 million and $26,632 million, respectively, of federal funds purchased and commercial paper issued. These amounts would have been classified as short-term borrowings for U.S. reporting purposes.

Table 23: Unrealized Gains (Losses) on Securities (a) ($ millions)

As at October 31	**2001**	2000	1999	1998	1997
Investment securities					
Government debt and other securities					
Canadian governments	**(13)**	13	21	NA	NA
U.S. governments	**202**	(84)	(92)	NA	NA
Mortgage-backed securities	**53**	(139)	(175)	NA	NA
Corporate debt	**11**	(117)	(103)	NA	NA
Corporate equity	**2**	101	9	NA	NA
Other governments	**3**	–	10	NA	NA
Total government debt and other securities	**258**	(226)	(330)	315	293
Grupo Financiero Bancomer	**–**	277	(226)	(190)	118
Designated lesser-developed countries (LDC) (b)	**–**	–	18	65	102
Equity investment in 724 Solutions Inc.	**(14)**	134	–	–	–
Total investment securities	**244**	185	(538)	190	513

(a) Unrealized gains and losses may be offset by structural positions and hedge contracts.

(b) Includes unrealized gain on LDC loans.

Table 24: Summarized Statement of Income ($ millions)

	Oct. 31 2001	July 31 2001	April 30 2001	Jan. 31 2001	Oct. 31 2000	July 31 2000	April 30 2000	Jan. 31 2000	2001	2000	1999
Net interest income (teb)	1,201	1,231	1,092	1,117	1,083	1,090	1,084	1,081	4,641	4,338	4,417
Other income	750	1,003	1,393	1,076	1,079	1,005	1,200	1,042	4,222	4,326	3,511
Total revenue	1,951	2,234	2,485	2,193	2,162	2,095	2,284	2,123	8,863	8,664	7,928
Provision for credit losses	546	117	217	100	58	100	100	100	980	358	320
Non-interest expense	1,449	1,421	1,404	1,397	1,330	1,326	1,348	1,254	5,671	5,258	5,288
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	(44)	696	864	696	774	669	836	769	2,212	3,048	2,320
Income taxes (teb)	(77)	227	233	260	270	252	322	279	643	1,123	874
Non-controlling interest in subsidiaries	14	11	10	7	6	4	5	4	42	19	21
Amortization of goodwill, net of applicable income tax	15	14	14	13	13	12	12	12	56	49	43
Net income	4	444	607	416	485	401	497	474	1,471	1,857	1,382
Taxable equivalent adjustment	32	44	32	34	35	33	35	31	142	134	138
Reported revenue	1,919	2,190	2,453	2,159	2,127	2,062	2,249	2,092	8,721	8,530	7,790

Table 25: Non-Recurring Items ($ millions)

	Oct. 31 2001	July 31 2001	April 30 2001	Jan. 31 2001	Oct. 31 2000	July 31 2000	April 30 2000	Jan. 31 2000	2001	2000	1999
Other Income											
Gain on sale of Global Custody business	–	–	–	–	–	–	–	–	–	–	27
Write-down of distressed securities portfolio	–	–	–	–	–	–	–	–	–	–	(55)
Gain on sale of Partners First	–	–	–	–	–	–	–	112	–	112	–
Gain on sale of U.S. Corporate Trust	–	–	–	–	–	–	74	–	–	74	–
Gain on sale of branches	–	–	5	7	7	19	14	–	12	40	–
Gain on sale of Bancomer	–	–	284	37	–	–	–	–	321	–	–
Write-down of equity investments in CBOs	(178)	–	–	–	–	–	–	–	(178)	–	–
	(178)	–	289	44	7	19	88	112	155	226	(28)
Provision for Credit Losses											
Reversal of loss provision on sale of LDC securities	–	–	–	–	(42)	–	–	–	–	(42)	–
Increase of general allowance	–	–	100	–	–	–	–	–	100	–	–
	–	–	100	–	(42)	–	–	–	100	(42)	–
Non-Interest Expense											
Restructuring charge	–	–	–	–	–	–	–	–	–	–	141
Reversal of restructuring charge	–	–	–	–	(43)	–	–	–	–	(43)	–
	–	–	–	–	(43)	–	–	–	–	(43)	141
Pre-tax impact of non-recurring items	(178)	–	189	44	92	19	88	112	55	311	(169)
Adjustment of future tax assets	–	–	–	25	–	–	–	–	25	–	–
Income taxes	(73)	–	4	6	37	8	36	45	(63)	126	(74)
After-tax non-recurring items	(105)	–	185	13	55	11	52	67	93	185	(95)

Table 26: Summarized Statement of Income Excluding Non-Recurring Items ($ millions, except as noted)

	Oct. 31 2001	July 31 2001	April 30 2001	Jan. 31 2001	Oct. 31 2000	July 31 2000	April 30 2000	Jan. 31 2000	2001	2000	1999
Net interest income (teb)	1,201	1,231	1,092	1,117	1,083	1,090	1,084	1,081	4,641	4,338	4,417
Other income	928	1,003	1,104	1,032	1,072	986	1,112	930	4,067	4,100	3,539
Total revenue	2,129	2,234	2,196	2,149	2,155	2,076	2,196	2,011	8,708	8,438	7,956
Provision for credit losses	546	117	117	100	100	100	100	100	880	400	320
Non-interest expense	1,449	1,421	1,404	1,397	1,373	1,326	1,348	1,254	5,671	5,301	5,147
Income before provision for income taxes, non-controlling interest in subsidiaries and goodwill	134	696	675	652	682	650	748	657	2,157	2,737	2,489
Income taxes (teb)	(4)	227	229	229	233	244	286	234	681	997	948
Non-controlling interest in subsidiaries	14	11	10	7	6	4	5	4	42	19	21
Amortization of goodwill, net of applicable income tax	15	14	14	13	13	12	12	12	56	49	43
Net income	109	444	422	403	430	390	445	407	1,378	1,672	1,477
Year-over-year growth (%)	(74.6)	13.5	(4.9)	(1.1)	15.6	2.8	22.3	12.3	(17.6)	13.1	9.5

Table 27: Quarterly Financial Measures

	Oct. 31 2001	July 31 2001	April 30 2001	Jan. 31 2001	Oct. 31 2000	July 31 2000	April 30 2000	Jan. 31 2000	2001	2000	1999
Information per Common Share ($)											
Dividends declared	0.28	0.28	0.28	0.28	0.25	0.25	0.25	0.25	1.12	1.00	0.94
Net income before goodwill											
Basic (a)	0.03	0.87	1.16	0.77	0.91	0.73	0.90	0.86	2.83	3.40	2.46
Diluted (a)	0.04	0.85	1.13	0.75	0.88	0.72	0.89	0.85	2.77	3.34	2.41
Earnings											
Basic	0.00	0.85	1.13	0.74	0.87	0.71	0.88	0.84	2.72	3.30	2.38
Diluted	0.00	0.83	1.10	0.73	0.86	0.69	0.87	0.83	2.66	3.25	2.34
Excluding non-recurring items	0.19	0.83	0.76	0.70	0.76	0.67	0.78	0.70	2.48	2.91	2.51
Cash earnings											
Basic	0.06	0.89	1.18	0.79	0.92	0.74	0.92	0.87	2.92	3.45	2.51
Diluted	0.06	0.88	1.15	0.77	0.90	0.73	0.90	0.86	2.86	3.39	2.46
Excluding non-recurring items	0.25	0.88	0.80	0.75	0.80	0.71	0.80	0.74	2.68	3.05	2.64
Book value	19.69	20.44	19.93	19.53	19.63	18.87	18.72	17.88	19.69	19.63	17.44
Market price											
High	44.10	43.25	44.40	41.70	35.80	32.85	28.40	29.00	44.40	35.80	34.80
Low	32.75	34.20	35.00	33.40	29.90	26.63	21.58	21.00	32.75	21.00	24.68
Close	33.86	40.85	35.20	40.89	35.25	31.88	26.88	24.08	33.86	35.25	28.33
Financial Measures (%)											
Five-year total shareholder return	14.3	23.9	20.4	23.8	22.9	21.5	18.2	17.5	14.3	22.9	22.0
Diluted earnings per share growth	(100.0)	20.3	26.4	(12.0)	100.0	1.5	40.3	36.1	(18.2)	38.9	2.2
Excluding non-recurring items	(75.0)	23.9	(2.6)	0.0	20.6	3.1	25.8	14.8	(14.8)	15.9	9.6
Diluted cash earnings per share growth	(93.3)	20.5	27.8	(10.5)	95.7	2.8	38.5	34.4	(15.6)	37.8	1.7
Excluding non-recurring items	(68.8)	23.9	0.0	1.4	19.4	4.4	23.1	15.6	(12.1)	15.5	9.1
Return on common shareholders' equity	(0.4)	16.8	23.7	15.3	18.4	15.0	19.8	19.0	13.8	18.0	14.1
Excluding non-recurring items	3.8	16.8	16.2	14.8	16.2	14.5	17.6	16.2	12.9	16.1	15.1
Cash return on common shareholders' equity	0.7	17.8	24.7	16.2	19.3	15.7	20.6	19.8	14.8	18.8	14.8
Excluding non-recurring items	4.8	17.8	17.2	15.7	17.1	15.3	18.4	16.9	13.9	16.9	15.9
Net economic profit growth	(100+)	48.9	55.6	(27.6)	100+	(15.7)	70.1	54.9	(43.3)	90.0	(13.5)
Revenue growth	(9.7)	6.6	8.8	3.2	7.7	3.4	16.5	9.8	2.3	9.3	9.0
Excluding non-recurring items	(1.2)	7.5	0.0	6.8	4.4	3.9	12.0	4.0	3.2	6.1	9.4
Expense-to-revenue ratio	74.2	63.6	56.5	63.7	61.5	63.2	59.1	59.0	64.0	60.7	66.7
Excluding non-recurring items	68.1	63.6	63.9	65.0	63.8	63.8	61.4	62.3	65.1	62.8	64.7
Provision for credit losses as a % of average net loans and acceptances	0.67	0.38	0.36	0.27	0.25	0.28	0.28	0.28	0.66	0.25	0.22
Excluding non-recurring items	0.60	0.31	0.29	0.27	0.28	0.28	0.28	0.28	0.60	0.28	0.22
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	14.17	12.55	11.52	11.94	10.51	9.83	8.71	8.89	14.17	10.51	8.53
Cash and securities-to-total assets	23.1	25.6	26.4	26.3	27.8	29.1	30.1	29.9	23.1	27.8	29.2
Tier 1 ratio	8.15	8.84	8.94	8.87	8.83	8.49	8.06	7.84	8.15	8.83	7.72
Credit rating (b)	AA–	AA–	AA–	AA–	AA–	AA–	AA–	AA–	AA–	AA–	AA–

(a) Reported diluted exceeds basic in the quarter ended October 31, 2001 because of rounding.

(b) Composite of Moody's and Standard & Poor's ratings on Senior Debt.

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for the interim periods, contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and such ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

Table 28: Other Statistical Information

As at October 31	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Other Information										
Employees (a)	33,842	33,200	32,844	33,400	34,286	33,468	33,341	34,769	32,067	32,126
Bank branches	1,129	1,135	1,198	1,216	1,246	1,296	1,245	1,248	1,214	1,231
Automated banking machines (Canada)	1,982	1,987	2,039	2,069	2,035	2,017	1,763	1,708	1,538	1,293
Rates										
Average Canadian prime rate (%)	6.55	7.05	6.49	6.44	4.80	6.67	8.58	6.42	6.44	7.49
Average U.S. prime rate (%)	7.68	9.18	8.00	8.59	8.51	8.49	8.89	6.69	6.04	6.59
Canadian/U.S. dollar exchange rates ($)										
High	1.49	1.44	1.45	1.40	1.33	1.34	1.33	1.29	1.24	1.12
Low	1.59	1.53	1.56	1.58	1.41	1.38	1.42	1.40	1.34	1.26
Average	1.54	1.48	1.50	1.46	1.37	1.37	1.38	1.36	1.29	1.19
End of period	1.59	1.52	1.47	1.54	1.41	1.34	1.34	1.35	1.32	1.24

(a) Reflects full-time equivalent number of employees, comprising full-time, part-time and over-time employees

Consolidated Financial Statements

This section of the Annual Report presents our Consolidated Financial Statements for the year ended October 31, 2001, Statement of Management's Responsibility for Financial Information and Shareholders' Auditors' Report.

The audited Consolidated Financial Statements present our financial condition as at October 31, 2001 and 2000 and results of our operations for the years ended October 31, 2001, 2000 and 1999. The accompanying Notes to Consolidated Financial Statements provide further financial detail and include the significant accounting policies underlying the financial information reported.

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Consolidated Balance Sheet

As at October 31 (Canadian $ in millions)	2001	2000
Assets		
Cash Resources (Note 2)	**$ 17,656**	$ 18,508
Securities (Notes 3 & 5)		
Investment (market value $21,714 in 2001 and $24,654 in 2000)	**21,470**	24,469
Trading	**16,200**	21,994
Loan substitutes	**6**	–
	37,676	46,463
Loans (Notes 4, 5 & 6)		
Residential mortgages	**41,941**	39,485
Consumer instalment and other personal loans	**19,107**	18,038
Credit card loans	**1,527**	1,407
Loans to businesses and governments	**61,249**	60,176
Securities purchased under resale agreements	**14,954**	16,308
	138,778	135,414
Allowance for credit losses	**(1,949)**	(1,597)
	136,829	133,817
Other		
Customers' liability under acceptances	**7,936**	8,630
Premises and equipment (Note 7)	**2,170**	2,171
Other assets (Note 8)	**37,142**	23,807
	47,248	34,608
Total Assets	**$ 239,409**	$ 233,396
Liabilities and Shareholders' Equity		
Deposits (Note 11)		
Banks	**$ 20,539**	$ 23,385
Businesses and governments	**66,132**	69,454
Individuals	**67,619**	63,858
	154,290	156,697
Other Liabilities (Note 12)		
Acceptances	**7,936**	8,630
Securities sold but not yet purchased	**6,609**	9,353
Securities sold under repurchase agreements	**17,480**	19,749
Other	**37,738**	22,115
	69,763	59,847
Subordinated Debt (Note 13)	**4,674**	4,911
Shareholders' Equity		
Share capital (Note 14)	**4,425**	4,854
Retained earnings	**6,257**	7,087
	10,682	11,941
Total Liabilities and Shareholders' Equity	**$ 239,409**	$ 233,396

The accompanying notes to consolidated financial statements are an integral part of this statement.

FACOMPTON

F. Anthony Comper
Chairman and Chief Executive Officer

Jeremy H. Reitman
Chairman, Audit Committee

Consolidated Statement of Income

For the Year Ended October 31 (Canadian $ in millions except per share amounts)	2001	2000	1999
Interest, Dividend and Fee Income			
Loans	**$ 9,689**	$ 10,404	$ 9,656
Securities (Note 3)	**2,419**	2,854	2,449
Deposits with banks	**892**	1,045	1,069
	13,000	14,303	13,174
Interest Expense			
Deposits	**6,183**	7,426	6,328
Subordinated debt	**351**	350	339
Other liabilities	**1,967**	2,323	2,228
	8,501	10,099	8,895
Net Interest Income	**4,499**	4,204	4,279
Provision for credit losses	**980**	358	320
Net Interest Income After Provision for Credit Losses	**3,519**	3,846	3,959
Other Income			
Deposit and payment service charges	**670**	646	616
Lending fees	**352**	322	329
Capital market fees	**976**	1,069	841
Card services	**204**	216	205
Investment management and custodial fees	**336**	373	419
Mutual fund revenues	**251**	232	207
Trading revenues	**490**	388	295
Securitization revenues (Note 6)	**331**	343	296
Other fees and commissions	**612**	737	303
	4,222	4,326	3,511
Net Interest and Other Income	**7,741**	8,172	7,470
Non-Interest Expense			
Salaries and employee benefits	**3,212**	3,065	2,820
Premises and equipment	**1,153**	1,071	1,123
Communications	**194**	259	268
Other expenses	**1,069**	883	915
	5,628	5,278	5,126
Amortization of intangible assets (Note 8)	**43**	23	21
	5,671	5,301	5,147
Restructuring charge (Note 15)	**–**	(43)	141
Total non-interest expense	**5,671**	5,258	5,288
Income Before Provision for Income Taxes, Non-Controlling Interest in Subsidiaries and Goodwill	**2,070**	2,914	2,182
Income taxes (Note 16)	**501**	989	736
	1,569	1,925	1,446
Non-controlling interest	**42**	19	21
Net Income Before Goodwill	**1,527**	1,906	1,425
Amortization of goodwill, net of applicable income tax (Notes 8 & 16)	**56**	49	43
Net Income	**$ 1,471**	$ 1,857	$ 1,382
Preferred dividends	**$ 80**	$ 101	$ 117
Net income before goodwill available to common shareholders	**$ 1,447**	$ 1,805	$ 1,308
Net income available to common shareholders	**$ 1,391**	$ 1,756	$ 1,265
Average common shares outstanding (in thousands)	**511,286**	531,318	531,723
Earnings Per Share Before Goodwill (Note 17)			
Basic	**$ 2.83**	$ 3.40	$ 2.46
Diluted	**2.77**	3.34	2.41
Earnings Per Share (Note 17)			
Basic	**2.72**	3.30	2.38
Diluted	**2.66**	3.25	2.34
Dividends Per Common Share	**1.12**	1.00	0.94

The accompanying notes to consolidated financial statements are an integral part of this statement.

The calculation of earnings per share before goodwill and earnings per share for the years ended October 31, 2000 and 1999 has been amended to reflect the stock dividend declared on March 1, 2001 of one common share of no value, for each common share.

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31 (Canadian $ in millions)				**2001**	2000	1999
Preferred Shares (Note 14)						
Balance at beginning of year				**$ 1,681**	$ 1,668	$ 1,958
Redemption of preferred shares				**(633)**	–	(272)
Translation adjustment on shares issued in a foreign currency				**2**	13	(18)
Balance at End of Year				**1,050**	1,681	1,668
	Number of shares					
	2001	2000	1999			
Common Shares (Note 14)						
Balance at beginning of year	**522,583,894**	534,064,200	528,866,396	**3,173**	3,190	3,095
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	**903,186**	1,373,272	1,047,282	**35**	37	31
Issued under the Stock Option Plan	**6,177,235**	1,915,282	1,349,000	**114**	35	21
Issued on the exchange of shares of subsidiary corporations	**1,134,765**	959,140	2,801,522	**7**	6	43
Issued on the acquisition of businesses (Note 9)	**10,285,447**	–	–	**400**	–	–
Cancellation of stock options granted on acquisition of an investment (Note 14)	**–**	–	–	**(22)**	–	–
Repurchased for cancellation (Note 14)	**(52,000,000)**	(15,728,000)	–	**(332)**	(95)	–
Balance at End of Year	**489,084,527**	522,583,894	534,064,200	**3,375**	3,173	3,190
Retained Earnings						
Balance at beginning of year				**7,087**	6,123	5,555
Cumulative impact of adopting Future Employee Benefits standard, net of applicable income tax (Note 18)				**(250)**	–	–
				6,837	6,123	5,555
Net income				**1,471**	1,857	1,382
Dividends – Preferred shares				**(80)**	(101)	(117)
– Common shares				**(568)**	(530)	(500)
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax				**179**	143	(172)
Recognition of unrealized translation loss on disposition of an investment in a foreign operation (Note 3)				**99**	–	–
Gain on cancellation of stock options granted on acquisition of an investment, net of applicable income tax (Note 14)				**18**	–	–
Costs of proposed merger, net of applicable income tax				**–**	–	(25)
Common shares repurchased for cancellation (Note 14)				**(1,699)**	(405)	–
Balance at End of Year				**6,257**	7,087	6,123
Total Shareholders' Equity				**$ 10,682**	$ 11,941	$ 10,981

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Cash Flow

For the Year Ended October 31 (Canadian $ in millions)	2001	2000	1999
Cash Flows from Operating Activities			
Net income	**$ 1,471**	$ 1,857	$ 1,382
Adjustments to determine net cash flows			
Provision for credit losses	**980**	358	320
Amortization of premises and equipment	**406**	402	412
Amortization of intangible assets	**56**	33	32
Amortization of goodwill	**62**	54	49
Gain on sale of securitized loans	**(82)**	(23)	(5)
Write-down of investment securities	**284**	16	93
Restructuring charge	**–**	(43)	128
Future income tax expense	**(180)**	131	(82)
Net (gain) on sale of investment securities	**(407)**	(199)	(8)
Change in accrued interest			
(Increase) decrease in interest receivable	**512**	(202)	344
Increase (decrease) in interest payable	**(250)**	182	84
Net increase (decrease) in deferred loan fees	**8**	1	(28)
Net (increase) decrease in unrealized gains and amounts receivable on derivative contracts	**(9,318)**	(4,402)	2,957
Net increase (decrease) in unrealized losses and amounts payable on derivative contracts	**10,304**	4,313	(3,104)
Net (increase) decrease in trading securities	**5,794**	(4,748)	1,545
Net increase (decrease) in current income taxes payable	**(80)**	(423)	608
Changes in other items and accruals, net	**1,090**	(301)	(391)
Net Cash Provided by (Used in) Operating Activities	**10,650**	(2,994)	4,336
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	**(3,793)**	(905)	12,891
Net increase (decrease) in securities sold but not yet purchased	**(2,744)**	(1,097)	2,607
Net (decrease) in securities sold under repurchase agreements	**(2,499)**	(4,428)	(5,581)
Net increase (decrease) in liabilities of subsidiaries	**(15)**	(1,219)	1,282
Proceeds from issuance of securities of a subsidiary	**800**	350	–
Proceeds from issuance of subordinated debt	**–**	300	–
Repayment of subordinated debt	**(300)**	(150)	(10)
Redemption of preferred shares	**(633)**	–	(272)
Proceeds from issuance of common shares	**156**	78	95
Common shares repurchased for cancellation	**(2,031)**	(500)	–
Dividends paid	**(648)**	(631)	(617)
Costs of proposed merger	**–**	–	(25)
Net Cash Provided by (Used in) Financing Activities	**(11,707)**	(8,202)	10,370
Cash Flows from Investing Activities			
Net (increase) decrease in interest bearing deposits with banks	**2,308**	5,253	(4,849)
Purchase of investment securities	**(35,979)**	(31,524)	(32,497)
Maturities of investment securities	**25,955**	24,299	21,173
Proceeds from sales of investment securities	**13,838**	8,966	9,525
Net (increase) in loans and loan substitute securities	**(5,657)**	(6,322)	(11,193)
Proceeds from securitization of assets	**1,197**	1,837	494
Net decrease in securities purchased under resale agreements	**1,354**	8,782	2,430
Premises and equipment – net purchases	**(399)**	(345)	(329)
Acquisition of businesses	**(245)**	(25)	(3)
Net Cash Provided by (Used in) Investing Activities	**2,372**	10,921	(15,249)
Net Increase (Decrease) in Cash and Cash Equivalents	**1,315**	(275)	(543)
Cash and Cash Equivalents at Beginning of Year	**2,144**	2,419	2,962
Cash and Cash Equivalents at End of Year	**$ 3,459**	$ 2,144	$ 2,419
Represented by:			
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 2,066**	$ 1,219	$ 1,261
Cheques and other items in transit, net	**1,393**	925	1,158
	$ 3,459	$ 2,144	$ 2,419
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year	**$ 8,751**	$ 9,917	$ 8,811
Amount of income taxes paid in the year	**405**	1,123	361

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements (Canadian $ in millions, unless otherwise stated)

Note 1: Basis of Presentation

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

In addition, our consolidated financial statements comply with disclosure requirements of United States generally accepted accounting principles, as applicable. The more significant differences in consolidated total assets, total liabilities or net income arising from applying United States generally accepted accounting principles are described in Note 24.

Basis of Consolidation

We conduct business through a variety of corporate structures, including subsidiaries and joint ventures. Subsidiaries are those where we exercise control through our ownership of the majority of the voting shares. Joint ventures are those where we exercise joint control through an agreement with other shareholders. All of the assets, liabilities, revenues and expenses of our subsidiaries and our proportionate share of the assets, liabilities, revenues and expenses of our joint ventures are included in our consolidated financial statements.

All significant intercompany transactions and balances are eliminated.

Trust assets under administration are maintained separately from our assets and are not included in our Consolidated Balance Sheet.

Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars. Assets and liabilities related to both foreign currency transactions and foreign operations are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. The income and expense amounts related to both foreign currency transactions and foreign operations are translated using the average exchange rate for the year.

The realized and unrealized gains and losses arising from translations of foreign currency transactions are included in other income in our Consolidated Statement of Income.

We have various investments in foreign operations which are denominated in foreign currencies. Unrealized gains and losses arising from translating foreign operations into Canadian dollars are included in shareholders' equity in our Consolidated Balance Sheet. All realized translation gains and losses related to our foreign operations are recognized in other income.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. The gain or loss on the translation of the hedge contract is offset against the realized or unrealized gain or loss on the translation of the item being hedged and is included in other income or retained earnings.

Use of Estimates

In preparing our consolidated financial statements we must make estimates and assumptions, mainly concerning values, which affect reported amounts of assets, liabilities, net income and related disclosures. Actual results could differ from these estimates.

Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements we have disclosed our significant accounting policies throughout the following notes with the related financial disclosures by major caption.

Changes in Accounting Policies

New accounting policies issued by standard setters are described in Notes 3, 6, 8, 9, 17, 18, 22 and 24.

Note 2: Cash Resources

Deposits with Banks

Deposits with banks are recorded at cost and include acceptances which we have purchased that have been issued by other banks. Interest income earned on these deposits is recorded on an accrual basis.

Cheques and Other Items in Transit, Net

Cheques and other items in transit are recorded at cost and represent the net position of the uncleared cheques and other items in transit between us and other banks.

Cash Restrictions

We have a number of banking subsidiaries whose cash is available for use in their own business and may not be used by other related corporations.

In addition, some of our subsidiaries are required to maintain reserves or minimum balances with central banks in their respective countries of operation amounting to $472 as at October 31, 2001 and $462 as at October 31, 2000.

	2001	2000
Cash and non-interest bearing deposits with Bank of Canada and other banks	$ 2,066	$ 1,219
Interest bearing deposits with banks	14,197	16,364
Cheques and other items in transit, net	1,393	925
Total	$ 17,656	$ 18,508

Note 3: Securities

Securities are divided into three components, each with a different purpose and accounting treatment. The three types of securities we hold are as follows:

- **Investment securities** are comprised of equity and debt securities that we purchase with the intention of holding until maturity or until market conditions, such as a change in interest rates, provide us with a better investment opportunity. Equity securities are recorded at cost and debt securities at amortized cost. Our investments in equity securities where we exert significant influence, but not control, over a corporation are recorded at cost and adjusted for our proportionate share of the corporation's net income or loss, net of adjustments for the amortization of goodwill that arose at the time we acquired our interest in the investment. When we identify a decline in value that is other than temporary, the affected securities are written down to their fair value. Any write-downs or gains and losses on the disposal of our investment securities are recorded in the year they occur and are included in our Consolidated Statement of Income as either an increase or a decrease in other income. Gains and losses on disposal are calculated using the average cost of the securities sold. Investment securities of designated countries are accounted for in accordance with our accounting policy for loans which is described in Note 4.
- **Trading securities** are securities that we purchase for resale over a short period of time. We report these securities at their market value and record the mark-to-market adjustments and any gains and losses on the sale of these securities in our Consolidated Statement of Income in other income.
- **Loan substitute securities** are customer financings, such as distressed preferred shares, that we structure as after-tax investments to provide our customers with an interest rate advantage over what would be applicable on a conventional loan. These securities are accounted for in accordance with our accounting policy for loans which is described in Note 4.

We did not own any securities issued by a single non-government entity where the book value, as at October 31, 2001 or October 31, 2000, was greater than 10% of our shareholders' equity.

Change in Accounting Policy

Effective November 1, 2001, we will no longer amortize goodwill when adjusting the value of our investment securities where we exert significant influence. This change in accounting requirements is described in Note 8.

	Term to maturity: Within 1 year	Yield %	1 to 3 years	Yield %	3 to 5 years	Yield %	5 to 10 years	Yield %	Over 10 years	Yield %	2001 Total book value	Yield %	2000 Total book value
Investment Securities													
Issued or guaranteed by:													
Canadian federal government	$ 311	4.08	$ 125	4.01	$ –	–	$ –	–	$ –	–	$ 436	4.06	$ 1,228
Canadian provincial and municipal governments	43	3.30	–	–	–	–	–	–	–	–	43	3.30	242
U.S. federal government	1,074	2.47	1,225	5.40	25	5.90	477	4.99	–	–	2,801	4.21	3,286
U.S. states, municipalities and agencies	3,857	4.17	1,742	4.21	1,133	6.13	644	6.68	1,146	5.71	8,522	4.84	7,443
Other governments	60	4.70	37	5.81	5	6.35	11	3.28	–	–	113	5.00	157
Mortgage-backed securities and collateralized mortgage obligations	33	6.19	–	–	–	–	2	5.63	3,380	6.44	3,415	6.44	3,743
Corporate debt	605	3.98	789	6.26	788	6.26	1,491	6.55	405	4.72	4,078	5.87	5,424
Corporate equity	360	8.73	241	9.58	437	10.10	924	3.58	100	4.81	2,062	6.62	2,946
Total investment securities	6,343	4.13	4,159	5.27	2,388	6.90	3,549	5.58	5,031	6.10	21,470	5.36	24,469
Trading Securities													
Issued or guaranteed by:													
Canadian federal government	310		1,444		278		816		495		3,343		4,417
Canadian provincial and municipal governments	110		15		345		335		409		1,214		1,191
U.S. federal government	271		–		2		1		4		278		3,320
U.S. states, municipalities and agencies	7		176		140		14		–		337		482
All other	2,325		299		512		481		7,411		11,028		12,584
Total trading securities	3,023		1,934		1,277		1,647		8,319		16,200		21,994
Loan Substitute Securities	–		–		6		–		–		6		–
Total Securities	$ 9,366		$ 6,093		$ 3,671		$ 5,196		$ 13,350		$ 37,676		$ 46,463

Yields in the table above are calculated using the book value of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts and any country risk provision associated with a particular security. Tax effects are not taken into consideration.

Securities of designated countries include any securities that we receive as part of a debt restructuring by a foreign country. They are recorded net of any country risk allowance (see Note 5) that we have allocated to these securities.

The term to maturity included in the table above is based on the contractual maturity date of the security. Securities with no maturity date are included in the over 10 years category.

Corporate equity as at October 31, 2000 included our investment in Grupo Financiero BBVA Bancomer. We accounted for this investment using the equity method until June 30, 2000, after which time we no longer had significant influence and began accounting for the investment on a cost basis. During the year ended October 31, 2001 we sold our investment in Grupo Financiero BBVA Bancomer and realized a gain of $321 ($272 after tax). The gain is net of unrealized foreign exchange losses of $99.

Interest income and gains and losses from securities are:

	2001	2000	1999
Reported in:			
Interest, Dividend and Fee Income			
Investment securities	$ 1,610	$ 1,949	$ 1,527
Trading securities	809	905	922
	$ 2,419	$ 2,854	$ 2,449
Other Income			
Investment securities			
Gross realized gains	$ 480	$ 245	$ 69
Gross realized losses	(73)	(46)	(61)
Write-downs (a)	(284)	(16)	(93)
Net realized gains (losses) and write-downs	$ 123	$ 183	$ (85)
Trading securities, net realized and unrealized gains (losses)	$ 139	$ 166	$ (15)

Interest expense is not included in the amounts shown above.

(a) Included in write-downs is $225 related to our equity investments in collateralized bond obligations.

Unrealized Gains and Losses

	2001 Book value	2001 Gross unrealized gains	2001 Gross unrealized losses	2001 Market value	2000 Book value	2000 Gross unrealized gains	2000 Gross unrealized losses	2000 Market value
Investment Securities								
Issued or guaranteed by:								
Canadian federal government	$ 436	$ 4	$ 17	$ 423	$ 1,228	$ 12	$ 5	$ 1,235
Canadian provincial and municipal governments	43	–	–	43	242	6	–	248
U.S. federal government	2,801	93	1	2,893	3,286	–	54	3,232
U.S. states, municipalities and agencies	8,522	110	–	8,632	7,443	2	32	7,413
Other governments	113	3	–	116	157	–	–	157
Mortgage-backed securities and collateralized mortgage obligations	3,415	53	–	3,468	3,743	–	139	3,604
Corporate debt	4,078	88	77	4,089	5,424	43	160	5,307
Corporate equity	2,062	101	113	2,050	2,946	588	76	3,458
Total	$ 21,470	$ 452	$ 208	$ 21,714	$ 24,469	$ 651	$ 466	$ 24,654

The market value of a security is based on the quoted market price at each year end. This price may not necessarily be what we would receive if we were to sell the security.

We use a variety of valuation techniques to estimate the market value when there is no readily available quoted market price for a particular security.

Note 4: Loans

Loans

All loans are recorded at cost net of any unearned interest, unamortized discounts and allowance for credit losses. Interest income is recorded on an accrual basis except for impaired loans, the treatment of which is described below. From time to time we will restructure a loan due to the poor financial condition of the borrower. Interest on these restructured loans is recorded on an accrual basis unless we consider the loan to be impaired.

Securities purchased under resale agreements represent the amounts we will receive as a result of our commitment to resell securities that we have purchased, back to the original sellers, on a specified date at a specified price. We account for these instruments as loans.

Loan Fees

Loan fees are received for a variety of reasons. The accounting treatment for these fees varies depending on the transaction. The unrecognized portion of all loan fees is included in other liabilities in our Consolidated Balance Sheet. Loan syndication fees are included in other income when they are earned. Loan origination, restructuring, renegotiation and commitment fees are recognized as interest income over the term of the loan unless we believe that the loan commitment we provide to our customer will not be used. In this case, we recognize the loan commitment fee over the commitment period.

Impaired Loans

We classify loans, except for credit card loans and consumer instalment loans, as impaired when any of the following criteria are met:

- we are unlikely to collect the principal or interest owed to us on a timely basis; or
- the principal or interest payments are 90 days past due unless we are actively trying to collect the loan and it is fully secured; or
- fully secured loans become 180 days past due; or
- we consider it prudent or appropriate to cease accruing interest on the loan.

Credit card loans are immediately classified as impaired and written off when principal or interest payments become 180 days past due. Consumer instalment loans are immediately classified as impaired when the principal or interest payments are 90 days past due and are written off when they are past due by one year.

We do not accrue interest when we classify a loan as impaired and any interest income that is accrued and unpaid is reversed to interest income.

The interest income that we would have recognized over the past three years if we had not classified loans as impaired is:

	2001	2000	1999
Interest income that would have been accrued at original contract rates	**$ 128**	$ 105	$ 50
Less: amount recognized as interest income	**(2)**	(2)	(5)
Total	**$ 126**	$ 103	$ 45

Any payments received on a loan that has been classified as impaired are recorded first to recover any previous write-offs or allowances before income is recognized. Any payments that we receive on impaired consumer instalment loans and loans to designated countries are applied first to the outstanding interest and then to the remaining principal amount.

Any property or other assets that we receive from our borrowers to satisfy their loan commitments to us are classified as impaired and recorded at the lower of the amount we expect to recover and the outstanding balance of the loan at the time the customer transfers the asset to us.

A loan will be reclassified back to performing status if new circumstances arise which cause us to believe that our principal and interest will be recovered in a timely manner from the borrower.

No loans classified as performing were restructured in the years ended October 31, 2001 and October 31, 2000. No restructured loans were written off in the years ended October 31, 2001 and October 31, 2000.

The following table sets out the outstanding gross and impaired amounts of loans and acceptances:

	Gross amount		Impaired loans and acceptances: Impaired amount		Impaired loans and acceptances: Specific allowance		Impaired loans and acceptances: Impaired amount less specific allowance		General allowance		Net amount	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Residential mortgages	**$ 41,941**	$ 39,485	**$ 132**	$ 144	**$ 6**	$ 6	**$ 126**	$ 138	**$ –**	$ –	**$ 126**	$ 138
Credit card, consumer instalment and other personal loans	**20,634**	19,445	**64**	53	**8**	5	**56**	48	**–**	–	**56**	48
Loans to businesses and governments	**61,249**	60,176	**1,818**	1,297	**755**	506	**1,063**	791	**–**	–	**1,063**	791
Securities purchased under resale agreements	**14,954**	16,308	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
	138,778	135,414	**2,014**	1,494	**769**	517	**1,245**	977	**–**	–	**1,245**	977
Acceptances	**7,936**	8,630	**–**	7	**–**	–	**–**	7	**–**	–	**–**	7
Non-sectoral	**–**	–	**–**	–	**–**	–	**–**	–	**1,180**	1,080	**(1,180)**	(1,080)
Total	**$ 146,714**	$ 144,044	**$ 2,014**	$ 1,501	**$ 769**	$ 517	**$ 1,245**	$ 984	**$ 1,180**	$ 1,080	**$ 65**	$ (96)

The following table sets out the outstanding amounts that we have classified as impaired:

	Canada		United States		Other countries		Total	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
Residential mortgages	**$ 132**	$ 144	**$ –**	$ –	**$ –**	$ –	**$ 132**	$ 144
Consumer instalment and other personal loans	**60**	51	**4**	2	**–**	–	**64**	53
Loans to businesses and governments	**753**	559	**1,011**	662	**54**	76	**1,818**	1,297
Acceptances	**–**	7	**–**	–	**–**	–	**–**	7
Total impaired loans and acceptances	**945**	761	**1,015**	664	**54**	76	**2,014**	1,501
Allowance for credit losses	**(1,266)**	(1,170)	**(646)**	(382)	**(37)**	(45)	**(1,949)**	(1,597)
Total net impaired loans and acceptances	**$ (321)**	$ (409)	**$ 369**	$ 282	**$ 17**	$ 31	**$ 65**	$ (96)
Average net impaired loans and acceptances	**$ (330)**	$ (379)	**$ 338**	$ 109	**$ 25**	$ 40	**$ 33**	$ (230)
Average gross impaired loans and acceptances	**$ 835**	$ 692	**$ 766**	$ 450	**$ 56**	$ 84	**$ 1,657**	$ 1,226

	Canada			United States			Other countries			Total		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Gross interest income received on impaired loans and acceptances	**$ 26**	$ 27	$ 28	**$ –**	$ 18	$ 44	**$ –**	$ 1	$ 46	**$ 26**	$ 46	$ 118
Interest income received on impaired loans and acceptances, net of interest reversals	**$ –**	$ 6	$ 12	**$ (6)**	$ 14	$ 41	**$ –**	$ 1	$ 46	**$ (6)**	$ 21	$ 99

Designated countries are determined by the Superintendent of Financial Institutions Canada as having difficulty in servicing all or part of their external debt to commercial banks. We did not have any impaired loans to designated countries as at October 31, 2001 or October 31, 2000.

Included in impaired loans are other real estate owned and securities received from customers in satisfaction of their loans totalling $13 as at October 31, 2001 and $12 as at October 31, 2000.

Fully secured loans with past due amounts between 90 and 180 days that we have not classified as impaired totalled $36 as at October 31, 2001 and $52 as at October 31, 2000.

Credit Instruments

As an integral part of our credit-granting practices, we enter into various legally binding commitments to provide our customers with credit. These commitments include:

- guarantees and standby letters of credit which represent our obligation to make payments to third parties on behalf of our customers if our customers are unable to make the required payments or meet other contractual requirements;
- securities lending which represents our credit exposure when we lend our securities, or our customers' securities, to third parties;
- documentary and commercial letters of credit which represent our agreement to honour drafts presented by a third party upon completion of specific activities;
- commitments to extend credit to our customers in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions.

In making these commitments, we expose ourselves to credit risk, being the risk that we may incur a loss if a counterparty fails to meet its obligations.

Summarized below is the contractual and risk-weighted equivalent value of our various commitments, which are based on the rules for capital adequacy of the Superintendent of Financial Institutions Canada. The risk-weighted equivalent value is used in the ongoing assessment of our capital adequacy ratios.

	2001		2000	
	Contract amount	**Risk-weighted equivalent**	Contract amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 10,216**	**$ 6,841**	$ 11,810	$ 8,320
Securities lending	**584**	**319**	1,616	156
Documentary and commercial letters of credit	**588**	**63**	698	113
Commitments to extend credit:				
Original maturity of one year and under	**69,428**	**–**	76,353	–
Original maturity of over one year	**25,001**	**10,155**	29,766	11,533
Total	**$ 105,817**	**$ 17,378**	$ 120,243	$ 20,122

Commitments to extend credit in respect of consumer instalment and credit card loans are excluded as the lines are revocable at our discretion.

Note 5: Allowance for Credit Losses

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level which we consider to be adequate to absorb credit losses in our on- and off-balance sheet portfolios.

The provision for credit losses is recorded in our Consolidated Statement of Income. It is based on statistical analysis and management judgement and represents the appropriate expense based upon the composition of our credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established.

We maintain the following allowances:

Specific Allowances

These allowances are recorded for specific loans, to reduce their book value to the amount we expect to recover from the loans. We review our loans and acceptances, other than consumer instalment and credit card loans, at least quarterly, to assess whether the loan should be classified as impaired and an allowance or write-off recorded. Our review of problem loans is conducted by our account managers who assess the ultimate collectibility and estimated recoveries on a specific loan based on all events and conditions that the manager believes are relevant to the condition of the loan.

This assessment is then reviewed and approved by an independent credit officer. Significant specific allowances and the aggregate allowance for credit losses are reviewed by officers in the Risk Management Group.

We use a variety of methods to determine the amount we expect to recover from impaired loans including the discounted value of estimated future cash flows, observable market values or the fair value of the underlying security discounted to reflect when we expect to sell the security. All changes in the allowance for credit losses are included in the provision for credit losses. The value of any collateral is also considered in establishing an allowance. Collateral can vary by type of loan and may include cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets.

General Allowance

This allowance is established to absorb credit losses in a portfolio of on- and off-balance sheet exposure, including those of associated corporations, joint ventures and securitization vehicles, recognizing that not all of the impairment in the loan portfolio can be specifically identified on a loan by loan basis. The general allowance is based upon statistical analysis of past performance, the level of allowance already in place and management's judgement.

The value of loans covered by the general allowance totalled $146,720 as at October 31, 2001 and $144,044 as at October 31, 2000.

Country Risk Allowance

This allowance is recorded for loans to and securities of countries designated by the Superintendent of Financial Institutions Canada that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks.

The portion of our allowance related to securities of designated countries is included in securities on our Consolidated Balance Sheet and the portion of our allowance related to off-balance sheet items is recorded in other liabilities on our Consolidated Balance Sheet.

The following table sets out the allocation of our allowance for credit losses:

	Specific allowances			General allowance			Country risk allowance			Total		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Residential mortgages	**$ 6**	$ 6	$ 4	**$ –**	$ –	$ –	**$ –**	$ –	$ –	**$ 6**	$ 6	$ 4
Consumer instalment and other personal loans	**8**	5	8	**–**	–	–	**–**	–	–	**8**	5	8
Loans to businesses and governments	**755**	506	360	**–**	–	–	**–**	–	6	**755**	506	366
Non-sectoral	**–**	–	–	**1,180**	1,080	970	**–**	–	–	**1,180**	1,080	970
	769	517	372	**1,180**	1,080	970	**–**	–	6	**1,949**	1,597	1,348
Securities of designated countries	**–**	–	–	**–**	–	–	**–**	–	79	**–**	–	79
Total	**$ 769**	$ 517	$ 372	**$ 1,180**	$ 1,080	$ 970	**$ –**	$ –	$ 85	**$ 1,949**	$ 1,597	$ 1,427

Changes in our allowance for credit losses are:

	Specific allowances			General allowance			Country risk allowance			Total		
	2001	2000	1999	**2001**	2000	1999	**2001**	2000	1999	**2001**	2000	1999
Balance at beginning of year	**$ 517**	$ 372	$ 283	**$ 1,080**	$ 970	$ 885	**$ –**	$ 85	$ 104	**$ 1,597**	$ 1,427	$ 1,272
Provision for credit losses	**880**	290	235	**100**	110	85	**–**	(42)	–	**980**	358	320
Recoveries	**40**	44	47	**–**	–	–	**–**	–	–	**40**	44	47
Write-offs	**(698)**	(206)	(178)	**–**	–	–	**–**	(45)	(15)	**(698)**	(251)	(193)
Other, including foreign exchange rate changes	**30**	17	(15)	**–**	–	–	**–**	2	(4)	**30**	19	(19)
Balance at end of year	**$ 769**	$ 517	$ 372	**$ 1,180**	$ 1,080	$ 970	**$ –**	$ –	$ 85	**$ 1,949**	$ 1,597	$ 1,427

Note 6: Asset Securitization

Securitization revenues are generated and are recorded in our Consolidated Statement of Income when we securitize portions of our assets by selling loans to special-purpose vehicles or trusts (securitization vehicles) of which we are not the beneficiary.

The purchase and sale contracts provide for the payment to us over time of the excess spread when the sum of interest and fees collected from customers exceeds the yield paid to investors in the securitization vehicle, less credit losses and other costs (the deferred purchase price).

For some of our securitizations, the contracts require us to maintain cash amounts deposited with the securitization vehicle up to predetermined limits in the event that deficiencies in cash flows owed to investors occur.

We also retain the servicing responsibility for certain consumer and corporate loans where assets are sold to securitization vehicles on a fully serviced basis.

We periodically review the carrying value of the deferred purchase price receivable and when we identify a decline in value that is other than temporary, the affected carrying amount is written down to its fair value. Any loss is recorded in our Consolidated Statement of Income.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved a new accounting guideline for recording and disclosing securitization transactions. We adopted this new guideline prospectively on July 1, 2001. Under the new guideline we account for securitization transactions as sales when control over the assets has been given up. At the time of the sale, a gain or loss is recognized based on our best estimate of the net present value of expected future cash flows, primarily the deferred purchase price, net of our estimate of any servicing obligations. During the life of the securitization, the deferred purchase price receivable is reduced as cash is received from the securitization vehicle and the servicing liability is amortized to income. Cash is received in respect of the deferred purchase price only after obligations to investors in the securitization vehicle are satisfied.

The impact of securitization on our Consolidated Statement of Income for transfers after June 30, 2001 is:

	2001
Gain on sale of loans	$ 66
Other securitization revenue	3
Amortization of servicing liability	–
Total securitization revenues	$ 69

Other securitization revenue includes servicing fees and interest earned on cash deposits with securitization vehicles.

For all transfers prior to July 1, 2001, we accounted for securitization transactions as sales when the significant risks and rewards of ownership of the loans had been transferred and we were able to estimate the amount of cash to be received. We recorded our entitlement to the deferred purchase price in other income as the amount was legally payable by the securitization vehicle, except for the securitization of National Housing Act ("NHA") insured mortgages. For these securitizations we recognize a gain or loss in other income based on the net present value of the deferred purchase price at the date of sale.

The impact of securitization on our Consolidated Statement of Income for all transfers prior to July 1, 2001 is:

	2001	2000	1999
Net interest income	$(247)	$(249)	$(234)
Provision for credit losses	42	46	42
Other income – card services	(78)	(97)	(89)
– securitization revenues	284	343	296
– other fees and commissions	(10)	(12)	(9)
Income (loss) before provision for income taxes, non-controlling interest in subsidiaries and goodwill	$ (9)	$ 31	$ 6

The impact of the change in accounting policy is an increase in securitization revenues of $35 for the year ended October 31, 2001. In addition, our securitization revenues reflect the impact of a write-down of $22 related to an account receivable from our corporate loan securitization vehicle.

The following table sets out certain amounts recognized in our consolidated financial statements related to securitization activity:

	Securitization Revenue			Investment Securities				Other Assets		Other Liabilities	
	Gain on sale of loans			Investment in securitization vehicles		Deferred purchase price receivable		Cash deposits with securitization vehicles		Servicing liability	
	2001	2000	1999	2001	2000	2001	2000	2001	2000	2001	2000
Residential mortgages	$ 38	$ 23	$ 5	$ –	$ –	$ 121	$ 81	$ 25	$ 26	$ 4	$ –
Consumer instalment and other personal loans	5	–	–	32	–	5	–	–	–	–	–
Credit card loans	39	–	–	–	–	20	–	–	–	–	–
Loans to businesses and governments	–	–	–	–	–	–	–	472	940	–	–

The following table summarizes certain cash flows received from securitization vehicles for the years ended October 31:

	Residential mortgages			Consumer instalment and other personal loans			Credit card loans			Loans to businesses and governments		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
Proceeds from new securitization	$ 1,197	$ 1,837	$ 494	$ 1,037	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Proceeds from new loans sold to revolving securitization vehicles	2,117	1,775	1,301	–	–	–	11,549	11,129	11,100	–	2,132	2,519
Servicing fees collected	6	2	1	1	–	–	50	50	50	2	3	3
Receipt of deferred purchase price	83	59	60	–	–	–	136	130	122	37	77	70

The following table sets out credit information related to our securitized assets:

	2001		2000	
	Securitized loans	Credit losses	Securitized loans	Credit losses
Residential mortgages	$ 8,063	$ –	$ 7,305	$ –
Consumer instalment and other personal loans	965	1	–	–
Credit card loans	2,500	57	2,500	46
Loans to businesses and governments	2,207	46	4,344	–
Total	$ 13,735	$ 104	$ 14,149	$ 46

Static pool credit losses are calculated by totalling the actual and projected future credit losses and dividing the result by the original balance of each pool of assets. Expected static pool credit losses as of October 31, 2001 for all loans securitized were 0.00% for residential mortgages, 1.25% for consumer instalment and other personal loans, 2.36% for credit card loans and 1.29% for loans to businesses and governments. Our credit exposure to securitized assets as at October 31, 2001 is limited to deferred purchase price receivable of $146 ($81 in 2000), certain cash deposits of $120 ($117 in 2000) and investments in securitization vehicles of $32 (nil in 2000).

The following table outlines the key economic assumptions used in measuring the deferred purchase price and the sensitivity of the current value of the deferred purchase price as at October 31, 2001 to immediate 10% and 20% adverse changes in those assumptions. The sensitivity analysis is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in the other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

	Residential mortgages	Consumer instalment and other personal loans	Credit card loans
Deferred purchase price receivable	$ 121	$ 5	$ 20
Weighted average life (in years)	3.89	2.97	0.17
Impact of:			
Prepayment rate (%)	8.00–9.55	8.00	33
10% adverse change	$0.4–$3.1	$0.1	$0.1
20% adverse change	$0.6–$6.2	$0.1	$0.2
Excess spread (%)	0.75–1.89	3.75	5.20–5.60
10% adverse change	$2.1–$9.1	$0.5	$2.1
20% adverse change	$3.3–$18.3	$1.0	$4.3
Expected credit losses (%)	–	1.25	2.36–2.50
10% adverse change	–	$0.5	$1.0
20% adverse change	–	$0.9	$2.0
Discount rate (%)	4.84–13.73	13.73	13.73
10% adverse change	$0.4–$1.6	$0.1	$0.1
20% adverse change	$0.7–$3.1	$0.3	$0.2

Note 7: Premises and Equipment

We record all premises and equipment at cost. Buildings, computer and other equipment and leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset. The maximum estimated useful lives we use to amortize our assets are:

- **Buildings** — **40 years**
- **Computer and other equipment** — **10 years**
- **Leasehold improvements** — **15 years**

	2001	2000
Land	**$ 292**	$ 278
Buildings	**1,387**	1,305
Computer and other equipment	**2,483**	1,991
Leasehold improvements	**491**	382
	4,653	3,956
Accumulated amortization	**(2,483)**	(1,785)
Total	**$ 2,170**	$ 2,171

Amortization expense for the years ended October 31, 2001, 2000 and 1999 amounted to $406, $402 and $412, respectively. Included in land and buildings are the costs of Bank-owned branches, of which we owned 460 as at October 31, 2001 and 465 as at October 31, 2000, and other properties, located in Canada, the United States and other countries.

Lease Commitments

We have entered into a number of non-cancellable leases for premises and equipment. Our total contractual rental commitments outstanding as at October 31, 2001 are $795. The commitments for each of the next five years are $106 for 2002, $85 for 2003, $72 for 2004, $65 for 2005, $43 for 2006 and $424 thereafter. Included in these amounts are the commitments related to 669 leased Bank branch locations as at October 31, 2001. Net rent expense for premises and equipment reported in our Consolidated Statement of Income was $175 for the year ended October 31, 2001, $165 for 2000 and $175 for 1999.

Note 8: Other Assets

	2001	2000
Accounts receivable, prepaid expenses and other items	**$ 4,657**	$ 5,297
Accrued interest receivable	**979**	1,491
Due from clients, dealers and brokers	**6,483**	1,951
Unrealized gains and amounts receivable on derivative contracts	**23,315**	13,997
Future income taxes	**392**	212
	35,826	22,948
Intangible assets		
Customer relationships	**188**	158
Core deposit intangibles	**162**	93
Branch distribution network	**150**	158
Other	**18**	3
	518	412
Goodwill		
Harris Bankcorp, Inc. and subsidiaries	**238**	240
BMO Nesbitt Burns Corporation Limited and subsidiaries	**129**	158
First National Bank of Joliet	**158**	–
Guardian Group of Funds Ltd.	**187**	–
Moneris Solutions Corporation	**50**	–
Other	**36**	49
	798	447
Intangible assets and goodwill	**1,316**	859
Total	**$ 37,142**	$ 23,807

Amortization of intangible assets is recorded in our Consolidated Statement of Income as:

	2001	2000	1999
Interest expense	**$ 13**	$ 10	$ 11
Non-interest expense	**43**	23	21
Total	**$ 56**	$ 33	$ 32

The total estimated amortization expense relating to intangible assets for each of the next five years is $65 for 2002, $65 for 2003, $65 for 2004, $64 for 2005 and $60 for 2006.

Amortization of goodwill is recorded net of applicable income tax in our Consolidated Statement of Income, and is comprised of the following:

	2001	2000	1999
Goodwill	**$ 62**	$ 54	$ 49
Income tax (benefit)	**(6)**	(5)	(6)
Goodwill net of applicable tax	**$ 56**	$ 49	$ 43

Intangible Assets

Intangible assets which we acquire when we invest in subsidiaries or other specific assets are recorded at their fair value at the time we make the investment. The amount is amortized to income over the period during which we believe the assets will benefit us, generally not exceeding 20 years. We write down the assets to their fair value when the undiscounted cash flows are not expected to allow for recovery of the carrying value.

Goodwill

When we acquire a subsidiary or make other specific investments we determine the fair value of the net tangible and intangible assets acquired and compare the total to the amount that we paid for the investments. Any excess of the amount paid over fair value of those net assets is considered to be goodwill. This amount is deferred and amortized to income over the period that we believe it will benefit us up to a maximum of 20 years. Goodwill is written down to its fair value when the expected undiscounted cash flows from the investment no longer support the carrying value and the shortfall is other than temporary.

There were no write-downs of goodwill or intangible assets during the years ended October 31, 2001 and October 31, 2000.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved a new accounting standard on goodwill and other intangible assets. Under the new standard, all goodwill and intangible assets with indefinite lives that are currently included in our Consolidated Balance Sheet will no longer be amortized to income over time, and will be subject to a periodic impairment review to ensure that the fair value remains greater than, or equal to, book value. Any excess of book value over fair value will be charged to income in the period in which the impairment is determined. We will adopt this new standard on November 1, 2001, at which time we will stop amortizing goodwill that was acquired prior to July 1, 2001. For the year ended October 31, 2001, amortization of goodwill was $62 ($56 after tax). We have no intangible assets with indefinite lives. Goodwill and intangible assets with indefinite lives arising from acquisitions subsequent to July 1, 2001 are not amortized under the new standard.

Note 9: Acquisitions

On July 13, 2001 we completed the acquisition of all outstanding voting shares of First National Bank of Joliet ("Joliet"), a publicly-traded, full-service community bank in the United States. The results of Joliet's operations since that date have been included in our consolidated financial statements. The acquisition of Joliet furthers our growth and expansion in the United States by extending our retail network in Chicago and providing us with a leadership position in Will County. The purchase price of $337 consisted of $124 of cash consideration and 5,325,307 of our common shares valued at $213. The number of common shares issued was determined pursuant to a formula in the acquisition agreement.

On July 19, 2001 we completed the acquisition of all outstanding voting shares of Guardian Group of Funds Ltd. ("Guardian"), a mutual fund subsidiary of a publicly-traded financial services company in Canada. The results of Guardian's operations since that date have been included in our consolidated financial statements. The acquisition of Guardian, a strategic initiative, strengthens our fund offering and provides an excellent platform to continue to grow our mutual fund business. The purchase price consisted of 4,960,140 of our common shares valued at $187. The value of the common shares issued was determined based on the average closing quoted price of our shares over the five-day period before and after May 15, 2001, the day the terms of the acquisition were agreed to and announced.

The core deposit intangible resulting from the acquisition of Joliet will be amortized over a seven-year period, and the other intangible assets resulting from the acquisition of Guardian will be amortized over periods not exceeding seven years.

Goodwill balances of $152 and $187 have been included in other assets in our Consolidated Balance Sheet for Joliet and Guardian, respectively. These amounts will not be amortized to income, and will be subject to a periodic impairment review. Goodwill related to these acquisitions is not deductible for tax purposes. Joliet is part of our Personal and Commercial Client Group, and Guardian is part of our Private Client Group.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

	Joliet	Guardian	Total
Cash resources	$ 193	$ –	$ 193
Investment securities	653	–	653
Loans	852	–	852
Other assets			
Other	23	9	32
Core deposit intangible	76	–	76
Other intangible assets	–	18	18
Goodwill	152	187	339
	251	214	465
	1,949	214	2,163
Deposits	1,347	–	1,347
Securities sold under repurchase agreements	230	–	230
Other liabilities	35	27	62
	1,612	27	1,639
Purchase price	$ 337	$ 187	$ 524

The allocation of purchase price is subject to refinement as we complete the valuation of the assets acquired and liabilities assumed.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved a new accounting standard on business combinations. We adopted this new standard prospectively on July 1, 2001. Under the new standard, all business acquisitions must be accounted for using the purchase method. This method involves allocating the purchase price paid for a business to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their fair value at the date of acquisition. Any excess is then recognized as goodwill. Previously, business combinations for which it was not possible to identify one of the parties as the acquirer were accounted for using the pooling of interests method, and all other business acquisitions were accounted for using the purchase method. We did not have any business combinations in prior years that were accounted for using the pooling of interests method.

Note 10: Operating and Geographic Segmentation

We conduct our business through operating segments, each of which has a distinct market and product mandate. Our Personal and Commercial Client Group provides financial services to personal and commercial customers in Canada and the United States; our Private Client Group provides wealth management services; and our Investment Banking Group offers corporate, institutional and government clients comprehensive financial services including advisory, investment and operating services.

In addition, Emfisys and Corporate Support provide enterprise-wide services including overall technology support and risk management.

Information concerning these operating segments, including disclosure of their revenues, expenses, net income, average assets, loans and deposits, is presented in the tables on pages 25 to 36 of our Management's Discussion and Analysis.

Note 11: Deposits

	Demand deposits									
	Interest bearing		Non-interest bearing		Payable after notice		Payable on a fixed date		Total	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Deposits by:										
Banks	**$ 237**	$ 189	**$ 512**	$ 510	**$ 462**	$ 513	**$ 19,328**	$ 22,173	**$ 20,539**	$ 23,385
Businesses and governments	**5,042**	5,384	**10,103**	9,779	**15,288**	15,356	**35,699**	38,935	**66,132**	69,454
Individuals	**2,425**	2,144	**2,733**	2,322	**28,819**	24,797	**33,642**	34,595	**67,619**	63,858
Total	**$ 7,704**	$ 7,717	**$ 13,348**	$ 12,611	**$ 44,569**	$ 40,666	**$ 88,669**	$ 95,703	**$ 154,290**	$ 156,697
Booked in:										
Canada	**$ 6,822**	$ 6,900	**$ 7,861**	$ 8,166	**$ 31,390**	$ 28,619	**$ 47,358**	$ 50,261	**$ 93,431**	$ 93,946
United States	**842**	742	**5,474**	4,422	**12,916**	11,469	**31,488**	27,549	**50,720**	44,182
Other countries	**40**	75	**13**	23	**263**	578	**9,823**	17,893	**10,139**	18,569
Total	**$ 7,704**	$ 7,717	**$ 13,348**	$ 12,611	**$ 44,569**	$ 40,666	**$ 88,669**	$ 95,703	**$ 154,290**	$ 156,697

Demand deposits are comprised primarily of our customers' chequing accounts, some of which we pay interest on. Our customers need not notify us prior to withdrawing money from their chequing accounts.

Deposits payable after notice are comprised primarily of our customers' savings accounts, on which we pay interest. Our customers are often required to give us notice prior to withdrawing money from these accounts.

Deposits payable on a fixed date are comprised primarily of various investment instruments purchased by our customers, such as term deposits and guaranteed investment certificates, to earn interest over a fixed period. The term of these deposits can vary from one day to ten years.

Deposits include federal funds purchased, which are overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank. As at October 31, 2001 we had purchased $4,160 of federal funds and $2,498 as at October 31, 2000.

Deposits include commercial paper totalling $505 as at October 31, 2001 and $1,085 as at October 31, 2000.

Included in our deposits payable on a fixed date as at October 31, 2001 are $61,789 of individual deposits greater than one hundred thousand dollars of which $24,746 were booked in Canada and $37,043 were booked outside Canada. We had $67,664 of such deposits as at October 31, 2000 of which $26,501 were booked in Canada and $41,163 were booked outside Canada. Of these deposits booked in Canada as at October 31, 2001, the amount maturing within three months was $13,101, between three and six months was $2,139, between six and twelve months was $3,610 and over twelve months was $5,896. As at October 31, 2000, the amount maturing within three months was $13,296, between three and six months was $1,096, between six and twelve months was $4,781 and over twelve months was $7,328.

Note 12: Other Liabilities

Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have an offsetting claim, equal to the amount of the acceptances, against our customers when the instrument matures. The amount due under acceptances is recorded as a liability and our corresponding claim is recorded as an asset in our Consolidated Balance Sheet.

Securities Sold but not yet Purchased

Securities sold but not yet purchased represent our obligation to deliver securities which we did not own at the time of sale. These obligations are recorded at their market value. Adjustments to the market value as at the balance sheet date and gains and losses on the settlement of these obligations are recorded as interest, dividend and fee income from securities in our Consolidated Statement of Income.

Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements represent short-term funding transactions where we sell securities that we already own and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. These securities are recorded at their original cost. The interest expense related to these liabilities is recorded on an accrual basis.

	2001	2000
Acceptances	**$ 7,936**	$ 8,630
Securities sold but not yet purchased	**6,609**	9,353
Securities sold under repurchase agreements	**17,480**	19,749
	$ 32,025	$ 37,732
Accounts payable, accrued expenses and other items	**9,605**	4,857
Liabilities of subsidiaries, other than deposits	**1,481**	1,496
Accrued interest payable	**1,314**	1,564
Unrealized losses and amounts payable on derivative contracts	**23,646**	13,342
Deferred loan fees	**113**	105
Non-controlling interest in subsidiaries	**1,579**	751
Other	**$ 37,738**	$ 22,115
Total	**$ 69,763**	$ 59,847

Included in liabilities of subsidiaries, other than deposits are other short-term borrowings totalling $1,467 as at October 31, 2001 and $1,345 as at October 31, 2000.

Included in non-controlling interest in subsidiaries as at October 31, 2001 and October 31, 2000 are capital trust securities totalling $1,150 and $350, respectively, that form part of our Tier 1 regulatory capital.

Note 13: Subordinated Debt

Subordinated debt represents our direct unsecured obligations to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require prior approval from the Superintendent of Financial Institutions Canada before we can redeem any part of our subordinated debt.

Our subordinated debt consists of notes and debentures with interest rates ranging from 2.50% to 10.85%. The maturity dates extend from May 2002 to December 2040.

The interest rates on certain debenture series are variable based on various indices. In addition, certain series of subordinated debt are redeemable at our option on various dates prior to February 2012.

Included in subordinated debt are debentures and subordinated notes denominated in U.S. dollars totalling US$950 as at October 31, 2001 and 2000. The Canadian dollar equivalent of these is $1,510 as at October 31, 2001 and $1,447 as at October 31, 2000.

During the year ended October 31, 2001 we redeemed our Series 23 Debentures of $300. During the year ended October 31, 2000 we redeemed our Series 13 Debentures of $150.

Repayments of our subordinated debt required over the next five years and thereafter are:

2002	$ 150
2003	250
2004	–
2005	477
2006	–
Thereafter	3,797
Total	$ 4,674

Note 14: Share Capital

Outstanding

(Canadian $ in millions, except per share information)			2001			2000			1999
	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share
Preferred Shares									
Class A – Series 4	–	$ –	$ –	–	$ –	$ –	–	$ –	$ 1.87
Class A – Series 5	–	–	–	–	–	–	–	–	522.26
Class B – Series 1	–	–	**0.57**	10,000,000	250	2.25	10,000,000	250	2.25
Class B – Series 2	–	–	**US$1.28**	10,000,000	381	US$1.69	10,000,000	368	US$1.69
Class B – Series 3	**16,000,000**	**400**	**1.39**	16,000,000	400	1.39	16,000,000	400	1.39
Class B – Series 4	**8,000,000**	**200**	**1.20**	8,000,000	200	1.20	8,000,000	200	1.20
Class B – Series 5	**8,000,000**	**200**	**1.33**	8,000,000	200	1.33	8,000,000	200	1.33
Class B – Series 6	**10,000,000**	**250**	**1.19**	10,000,000	250	1.19	10,000,000	250	1.19
		1,050			1,681			1,668	
Common Shares	**489,084,527**	**3,375**	**1.12**	522,583,894	3,173	1.00	534,064,200	3,190	0.94
Total Outstanding Share Capital		**$ 4,425**			$ 4,854			$ 4,858	

Preferred Shares

We are authorized by our shareholders to issue an unlimited number of Class A Preferred Shares and Class B Preferred Shares without par value, in series, for unlimited consideration. Class B Preferred Shares may be issued in a foreign currency.

During the year ended October 31, 2001 we redeemed all of our Class B – Series 1 preferred shares for $25.00 per share or $250, and all of our Class B – Series 2 preferred shares for US$25.00 per share or US$250.

Class B – Series 3 shares are redeemable at our option starting August 25, 2004 for $25.00 cash per share, plus a premium if we redeem the shares before August 25, 2006, or an equivalent value of our common shares, and are convertible at the shareholder's option starting May 25, 2007 into our common shares; however, we have the right to pay $25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of $0.346875 per share.

Class B – Series 4 shares are redeemable at our option starting August 25, 2005 for $25.00 cash per share, plus a premium if we redeem the shares before August 25, 2007, or an equivalent value of our common shares, and are convertible at the shareholder's option starting May 25, 2008 into our common shares; however, we have the right to pay $25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of $0.30 per share.

Class B – Series 5 shares are redeemable at our option starting February 25, 2013 for $25.00 cash per share, and are not convertible. The shares carry a non-cumulative quarterly dividend of $0.33125 per share.

Class B – Series 6 shares are redeemable at our option starting November 25, 2005 for $25.00 cash per share, plus a premium if we redeem the shares before November 25, 2007, or an equivalent value of our common shares, and are convertible at the shareholder's option starting November 25, 2008 into our common shares; however, we have the right to pay $25.00 cash per share instead. The shares carry a non-cumulative quarterly dividend of $0.296875 per share.

Common Shares

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, for unlimited consideration. Our common shares are not redeemable or convertible. Dividends are declared by us on a quarterly basis and the amount can vary from quarter to quarter.

During the year ended October 31, 2001, we initiated a program to repurchase up to 52,000,000 shares through recognized stock exchanges by December 31, 2001. As at October 31, 2001, 52,000,000 shares had been repurchased at an average cost of $39.06 per share, totalling $2,031. During the year ended October 31, 2000, 15,728,000 shares were repurchased at an average cost of $31.80 per share, totalling $500.

During the year ended October 31, 2001, we paid a stock dividend of one common share, with no value, for each outstanding common share. The stock dividend had the same effect as a two-for-one stock split. All common share balances have been restated to reflect this stock dividend.

Stock Option Plan

We maintain a Stock Option Plan for designated officers and employees. The options granted under the plan from 1995 to 1999 vest five fiscal years from November 1 of the fiscal year in which the options are granted to the officer or employee, after we have met certain performance targets. The options granted in 2000 and 2001 vest 25% per year over a four-year period starting from November 1 of the fiscal year in which the options are granted. A portion of the options granted in 2000 and 2001 are subject to a performance target. The options expire ten years from the date they are granted. No compensation expense is recognized when stock options are granted. When the stock options are exercised we include the amount of the proceeds in shareholders' equity.

Other Issuances Exchangeable into Common Shares

In 1996 we granted options to Grupo Financiero BBVA Bancomer to purchase up to 19,914,570 of our common shares as part of the consideration paid for our investment in Grupo Financiero BBVA Bancomer. These options were cancelled on December 18, 2000. As a result, the $22 option value that was included in share capital in 1996 was reversed and an after-tax gain of $18 was recognized directly in retained earnings.

One of our subsidiaries, Bank of Montreal Securities Canada Limited, has issued various classes of non-voting shares which can be exchanged for our common shares. Class B and C shares can be exchanged at the option of the holder for our common shares. The number of our common shares that will be issued on the exchange of these shares is based on a formula. Class E and F shares can be exchanged at the option of the holder on a one-for-one basis.

Share Redemption and Dividend Restrictions

The Superintendent of Financial Institutions Canada must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we are, or would be as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

In addition, we have agreed that if BMO Capital Trust, one of our subsidiaries, fails to pay any required distribution on its capital trust securities, we will not declare dividends of any kind on any of our preferred or common shares.

Potential Share Issuances

As at October 31, 2001, we had reserved 9,332,144 common shares for potential issue in respect of our Shareholder Dividend Reinvestment and Share Purchase Plan, 6,131,921 common shares in respect of the exchange of Class B, C, E and F shares of Bank of Montreal Securities Canada Limited and 43,395,083 common shares for the potential exercise of stock options.

The following table sets out the number of common shares we may issue in various circumstances:

	Fiscal year issued	2001 Number of shares	2001 Price per share	2000 Number of shares	2000 Price per share
Stock Option Plan	1995	**1,197,800**	**$ 12.75**	3,060,718	$ 12.75
	1996	**2,044,500**	**15.50**	4,725,800	15.50
	1997	**3,968,500**	**19.93**	4,538,400	19.93
	1997	**–**	**28.75**	150,000	28.75
	1998	**3,301,500**	**32.90**	3,764,600	32.90
	1998	**103,000**	**42.70**	103,000	42.70
	1999	**8,202,800**	**30.18**	8,827,800	30.18
	2000	**7,568,043**	**25.60**	8,328,600	25.60
	2000	**50,000**	**33.13**	50,000	33.13
	2001	**6,523,800**	**38.45**	–	–
	2001	**6,000**	**37.79**	–	–
	2001	**31,800**	**39.60**	–	–
		32,997,743		33,548,918	
Other options	1996	**–**	**$ –**	19,914,570	$ 18.25
		32,997,743		53,463,488	
Other convertible issuances	1992	**1,091,638**	**$ 8.39**	1,876,780	$ 7.26
	1994	**288,322**	**11.05**	601,002	9.45
		1,379,960		2,477,782	
Total		**34,377,703**		55,941,270	

This table does not include certain share issues which are redeemable at our option or subject to our ability to settle a conversion option with cash.

Stock options for 6,177,235 shares were exercised during the year ended October 31, 2001 and options for 1,915,282 shares were exercised during the year ended October 31, 2000. The number of stock options cancelled during the year ended October 31, 2001 was 1,148,690 and options for 644,900 shares were cancelled during the year ended October 31, 2000.

The weighted average exercise price of all the options outstanding as at October 31, 2001 was $28.31 per share, as at October 31, 2000 was $24.34 per share and as at October 31, 1999 was $23.55 per share.

At a weighted average exercise price of $21.92 per share, 7,443,288 stock options were exercisable as at October 31, 2001; at a weighted average exercise price of $18.64 per share, 5,828,718 stock options were exercisable as at October 31, 2000; and at a weighted average exercise price of $21.29 per share, 1,639,500 stock options were exercisable as at October 31, 1999.

The weighted average fair value of options granted during the year ended October 31, 2001 was $8.17, during the year ended October 31, 2000 was $4.79 and during the year ended October 31, 1999 was $6.17. We determine the fair value of each option granted using the Rolle-Geske Option Pricing Model with the following assumptions:

- risk-free interest rate of 6.1% for October 31, 2001, 6.3% for 2000 and 4.9% for 1999;
- expected period until exercise of 7.0 years for October 31, 2001, 7.0 years for 2000 and 7.5 years for 1999;
- expected stock volatility of 22.1% for October 31, 2001, 21.5% for 2000 and 19.8% for 1999;
- expected dividend yield of 5.9% for October 31, 2001, 6.2% for 2000 and 8.8% for 1999.

Note 15: Restructuring Charge

In October 1999, we recorded a charge of $141 for exit costs associated with restructuring initiatives of which $84 had been paid as at October 31, 2001, $61 as at October 31, 2000 and $13 as at October 31, 1999.

The charge included exit costs related to the activities of each of our operating groups: $67 for costs to realign the Bank's distribution system, including the closure of 105 branches in the Personal and Commercial Client Group; $16 for costs to realign investment and corporate banking activities, including certain businesses in our London, England branch in the Investment Banking Group; $6 for strategic repositioning of our wealth management business into six new lines of business in the Private Client Group; and $52 for costs to exit certain centrally managed functions that are no longer required to support our strategic initiatives.

During the year ended October 31, 2000, we revised our estimate of the remaining costs to execute the restructuring plan and reduced the liability by $43; this adjustment was recorded in restructuring charge in the Consolidated Statement of Income.

The revision of our estimate was due to:

1. the unanticipated sale of 37 branches during the year which reduced the number of branch closures required to realign the Bank's distribution system to 61; and
2. lower severance costs due to higher than expected levels of attrition and redeployment within the Bank which reduced the number of employees terminated to 721 from 1,430.

The restructuring accrual balance at October 31, 2001 relates to contractual commitments made in connection with the completion of restructuring initiatives, including severance payments being received by employees in the form of salary continuance.

	Severance 2001	Severance 2000	Fixed asset write-downs 2001	Fixed asset write-downs 2000	Lease terminations 2001	Lease terminations 2000	Total 2001	Total 2000
Balance at beginning of year	**$ 34**	$ 96	**$ 1**	$ 14	**$ 2**	$ 18	**$ 37**	$ 128
Paid during the year	**21**	34	**1**	7	**1**	7	**23**	48
Reversed	**–**	28	**–**	6	**–**	9	**–**	43
Balance at end of year	**$ 13**	$ 34	**$ –**	$ 1	**$ 1**	$ 2	**$ 14**	$ 37

Note 16: Income Taxes

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes, with the exception noted below for repatriation of retained earnings from our foreign subsidiaries.

In addition, we record income tax expense or benefit directly in retained earnings for those items recorded in shareholders' equity.

Net future income taxes included in other assets is the cumulative amount of tax applicable to temporary differences between the carrying amount of our assets and liabilities and their values for tax purposes. Future income taxes are measured at the tax rates expected to apply when these differences reverse. Changes in future income taxes related to a change in tax rates are recognized in income in the period of the tax rate change.

We review the valuation of our future income tax assets on an ongoing basis and adjust our valuation allowance, as necessary, to reflect the realizable amount of our future income tax assets. We expect that we will realize our future income tax assets in the normal course of our operations.

Provision for Income Taxes	2001	2000	1999
Consolidated Statement of Income			
Provision for income taxes	**$ 501**	$ 989	$ 736
Income tax (benefit) related to amortization of goodwill	**(6)**	(5)	(6)
Shareholders' Equity			
Income tax expense (benefit) related to items recognized directly in retained earnings	**(350)**	(153)	158
Total	**$ 145**	$ 831	$ 888
Components of Total Income Taxes			
Canada: Current income taxes			
Federal	**$ 95**	$ 279	$ 575
Provincial	**32**	109	186
	127	388	761
Canada: Future income taxes			
Federal	**(108)**	43	(116)
Provincial	**(36)**	14	(35)
	(144)	57	(151)
Total Canadian	**(17)**	445	610
Foreign: Current income taxes	**198**	312	209
Future income taxes	**(36)**	74	69
Total Foreign	**162**	386	278
Total	**$ 145**	$ 831	$ 888

Components of Future Income Tax Balances	2001	2000
Future Income Tax Assets		
Allowance for credit losses	**$ 572**	$ 508
Future employment benefits	**165**	–
Deferred items	**15**	34
Other	**253**	150
	1,005	692
Valuation allowance	**–**	–
Future Income Tax Assets	**1,005**	692
Future Income Tax Liabilities		
Premises and equipment	**(283)**	(241)
Pension	**(186)**	(165)
Other	**(144)**	(74)
Future Income Tax Liabilities	**(613)**	(480)
Net Future Income Tax Asset	**$ 392**	$ 212

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that we have reported in our Consolidated Statement of Income:

	2001		2000		1999	
Combined Canadian federal and provincial income taxes and statutory tax rate	**$ 848**	**41.0%**	$ 1,230	42.2%	$ 919	42.1%
Increase (decrease) resulting from:						
Tax-exempt income	**(93)**	**(4.5)**	(128)	(4.4)	(91)	(4.2)
Foreign operations subject to different tax rates	**(161)**	**(7.8)**	(151)	(5.2)	(133)	(6.1)
Non-taxable portion of gain on sale of investment in Bancomer	**(83)**	**(4.0)**	–	–	–	–
Large corporations tax	**15**	**0.7**	14	0.5	11	0.5
Financial institutions temporary surcharge	**–**	**–**	11	0.4	11	0.5
Change in tax rate for future income taxes	**38**	**1.9**	11	0.4	–	–
Intangible assets not deductible for tax purposes	**11**	**0.5**	4	0.1	6	0.3
Other	**(74)**	**(3.6)**	(2)	(0.1)	13	0.6
Provision for Income Taxes and Effective Tax Rate	**$ 501**	**24.2%**	$ 989	33.9%	$ 736	33.7%

Income which we earn in foreign countries, either through our branches or subsidiaries, is generally subject to tax in those countries. We are also subject to Canadian taxation on the income earned in our foreign branches. Canada allows a credit for foreign taxes paid on this income. Upon repatriation of earnings from foreign subsidiaries, we would be required to pay tax on certain of these earnings. As repatriation of such earnings is not currently planned, we have not recognized the future tax liability. Canadian and foreign taxes that would be payable if all of our foreign subsidiaries' earnings were repatriated are estimated to be $501 as at October 31, 2001, $434 as at October 31, 2000 and $387 as at October 31, 1999.

Note 17: Earnings per Share

Our basic earnings per share is calculated by dividing our net income, after deducting total preferred share dividends, by the daily average number of fully paid common shares outstanding throughout the year.

The diluted amount includes the potential dilution of convertible securities issued by a subsidiary and the potential issuance of shares under stock options, where the strike price is below the average share price for the year.

The average number of common shares outstanding throughout the year used to calculate our diluted earnings per share is based on the assumption that the conversion or redemption of all securities which are convertible or redeemable at the option of the holder occurred at the beginning of the year or at the date the security was issued, if later.

Our Series 1, 2 and 3 Class B Preferred shares, in certain circumstances, are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as we have the option to settle in cash instead of common shares.

The calculation of earnings per share for the years ended October 31, 2000 and 1999 has been amended to reflect the stock dividend of one common share, with no value, for each outstanding common share declared on March 1, 2001.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved a new accounting standard for computing and disclosing earnings per share which we adopted on November 1, 2000. We adopted this new standard retroactively and have restated diluted earnings per share for prior periods. The most significant change is that when calculating diluted earnings per share under the new standard, we assume that proceeds received from the exercise of stock options are used to repurchase outstanding shares; whereas under the previous standard, we assumed that they were invested to earn a return. The net impact of the change is a decrease in diluted earnings per share of $0.05, $0.03 and $0.02 for the years ended October 31, 2001, 2000 and 1999, respectively.

(Canadian $ in millions, except per share information)

Basic earnings per share	2001	2000	1999
Net income before goodwill	**$ 1,527**	$ 1,906	$ 1,425
Dividends on preferred shares	**(80)**	(101)	(117)
Net income before goodwill available to common shareholders	**1,447**	1,805	1,308
Amortization of goodwill	**(56)**	(49)	(43)
Net income available to common shareholders	**$ 1,391**	$ 1,756	$ 1,265
Average number of common shares outstanding (in thousands)	**511,286**	531,318	531,723
Basic earnings per share before goodwill amortization	**$ 2.83**	$ 3.40	$ 2.46
Basic earnings per share	**$ 2.72**	$ 3.30	$ 2.38

(a) Excluded from the computation of diluted earnings per share were average options outstanding of 103,000 with an exercise price of $42.70; average options outstanding of 1,020 with an exercise price of $37.79; and average options outstanding of 5,402 with an exercise price of $39.60, as the options' exercise prices were greater than the average market price of our common shares.

Diluted earnings per share	2001	2000	1999
Net income before goodwill available to common shareholders	**$ 1,447**	$ 1,805	$ 1,308
Dividends on convertible shares	**2**	2	3
Net income before goodwill adjusted for dilution effect	**1,449**	1,807	1,311
Amortization of goodwill	**(56)**	(49)	(43)
Net income adjusted for dilution effect	**$ 1,393**	$ 1,758	$ 1,268
Average number of common shares outstanding (in thousands)	**511,286**	531,318	531,723
Convertible shares	**2,213**	3,125	4,322
Stock options potentially exercisable (a)	**31,742**	21,336	18,597
Shares potentially repurchased	**(21,680)**	(14,964)	(11,722)
Average diluted number of common shares outstanding (in thousands)	**523,561**	540,815	542,920
Diluted earnings per share before goodwill amortization	**$ 2.77**	$ 3.34	$ 2.41
Diluted earnings per share	**$ 2.66**	$ 3.25	$ 2.34

Note 18: Pensions and Certain Non-Pension Benefits

We provide a range of benefits to our employees, the costs of which are recognized in the period services are provided as salaries and employee benefits expense in our Consolidated Statement of Income. Information on pension benefits and certain other future employee benefits including stock-based compensation plans is provided below.

Pensions and Other Future Employee Benefit Plans

We have a number of arrangements in Canada, the United States and the United Kingdom which provide pension and future employee benefits to our retired and current employees. Pension arrangements include statutory pension plans as well as supplemental arrangements which provide pension benefits in excess of statutory limits. Generally, we provide retirement benefits based on employees' years of service and average earnings at the time of retirement and do not require employees to make contributions. Voluntary contributions can be made by employees. Other future employee benefits, including health and dental care benefits and life insurance, are also provided for current and retired employees.

Our actuaries perform regular valuations of our accrued benefit obligation for pension and other future employee benefits based on assumptions about salary growth, retirement age, mortality, and health care cost trend rates. Assets are set aside to satisfy our pension obligation related to statutory pension plans, and a retirement compensation arrangement ("RCA") was set up in 2001 to fund supplemental pension arrangements in Canada. Our U.S. other future employee benefits obligation is partially funded; however, our Canadian other future employee benefits are unfunded.

Pension and other future employee benefits expenses are determined as the cost of employee benefits earned in the current year, interest expense on the accrued benefit obligation, expected investment return on the market value of plan assets, the amortization of deferred past service costs and the amortization of deferred actuarial gains and losses in excess of a predetermined range.

Past service costs arise when we make pension amendments that result in the granting of benefits that are calculated by reference to service already provided by employees. We defer and amortize past service costs to pension expense over the average remaining service period of active employees.

Actuarial gains and losses can arise in one of two ways: first, when the actual return on plan assets for a period differs from the expected return on plan assets for that period, and second, when the expected accrued benefit obligation at the end of the year differs from the actual accrued benefit obligation at the end of the year. We defer and amortize all experience gains and losses in excess of a predetermined range to pension and other future employee benefits expense over the average remaining service period of active employees.

Prepaid pension expense is included in other assets in our Consolidated Balance Sheet. The accrued benefit liability relating to our supplemental pension arrangements and other future employee benefits is included in other liabilities.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved a new accounting standard for recording and disclosing pension and other future employee benefits which we adopted on November 1, 2000.

The standard permits the change to be accounted for either retroactively as a charge to opening retained earnings or prospectively through an annual charge to income over the average remaining service life of the employee group. We have adopted the new standard retroactively as a charge to opening retained earnings.

The most significant changes are:

- We have included our deferred pension amounts, including past service costs and net experience gains, in the charge to opening retained earnings.
- Our pension benefit obligation is now calculated using a current market rate rather than management's best estimate of the long-term discount rate.
- We have recorded an actuarially determined liability and expense for certain other future employee benefits we provide for current and retired employees rather than recognizing the expense as it is incurred. These other future employee benefits include post-retirement benefits, post-employment benefits and compensated absences.

The impact of adopting the new accounting standard on November 1, 2000 is comprised of two components. Our prepaid pension asset was increased by the net amount of unamortized deferred actuarial gains and deferred past service costs related to prior periods. This was offset in part by a decrease related to the change in discount rate used to value our accrued pension obligation, for a net increase in our prepaid pension asset of $38. Other liabilities was increased by $459 as a result of recording an actuarially determined liability for certain other future employee benefits. The net impact on opening retained earnings was a decrease of $250 (net of tax of $171). For the year ended October 31, 2001, pension expense increased by $46 and other future employee benefits expense increased by $23 as a result of this change in accounting.

The following table provides summaries of our pension plans' and other future employee benefits plans' estimated financial positions:

	Pension benefit plans			Other future employee benefits		
	2001	2000	1999	**2001**	2000	1999
Accrued benefit obligation, beginning of year	**$ 2,211**	$ 2,098	$ 2,202	**$ –**	$ –	$ –
Adjustment to adopt change in accounting standard	**402**	–	–	**490**	–	–
Benefits earned by employees	**93**	69	76	**13**	–	–
Interest cost accrued on accrued benefit obligation	**177**	166	160	**32**	–	–
Benefits paid to pensioners and employees (a)	**(151)**	(152)	(175)	**(18)**	–	–
Voluntary employee contributions	**6**	4	4	**–**	–	–
Actuarial (gain) loss	**117**	(7)	(159)	**17**	–	–
Plan amendments	**24**	18	14	**–**	–	–
Other, primarily foreign exchange	**24**	15	(24)	**3**	–	–
Accrued benefit obligation, end of year	**$ 2,903**	$ 2,211	$ 2,098	**$ 537**	$ –	$ –
Fair value of plan assets, beginning of year	**$ 3,103**	$ 2,825	$ 2,678	**$ –**	$ –	$ –
Transition adjustment to reflect prior funding by U.S. subsidiary	**–**	–	–	**50**	–	–
Actual return on plan assets	**(285)**	365	305	**(3)**	–	–
Bank contributions	**122**	44	27	**5**	–	–
Voluntary employee contributions	**6**	4	4	**–**	–	–
Benefits paid to pensioners and employees (a)	**(151)**	(152)	(169)	**–**	–	–
Other, primarily foreign exchange	**21**	17	(20)	**2**	–	–
Fair value of plan assets, end of year	**$ 2,816**	$ 3,103	$ 2,825	**$ 54**	$ –	$ –
Plan funded status	**(87)**	892	727	**(483)**	–	–
Unrecognized actuarial (gain) loss	**633**	(543)	(439)	**25**	–	–
Unrecognized past service costs	**20**	78	74	**–**	–	–
Unrecognized transition amount	**–**	(1)	(1)	**–**	–	–
Prepaid expense (accrued benefit liability), end of year	**$ 566**	$ 426	$ 361	**$(458)**	$ –	$ –
Annual Benefits Expense						
Net benefits expense includes the following components:						
Actual investment return on plan assets	**$ 285**	$ (365)	$ (304)	**$ 3**	$ –	$ –
Excess of actual over expected return	**(537)**	135	94	**(8)**	–	–
Expected return on plan assets	**(252)**	(230)	(210)	**(5)**	–	–
Benefits earned by employees	**93**	72	76	**13**	–	–
Interest cost accrued on accrued benefits obligation	**177**	166	161	**32**	–	–
Amortization of actuarial loss (gain)	**–**	(38)	(24)	**1**	–	–
Amortization of past service costs	**1**	14	13	**–**	–	–
Amortization of transition amount	**(1)**	(1)	–	**–**	–	–
Benefits paid to pensioners and employees (a)	**–**	–	–	**–**	16	18
Annual benefits expenses	**18**	(17)	16	**41**	16	18
Canada, Quebec and defined contribution pension plans expense	**49**	40	41	**–**	–	–
Total annual pension and other future employee benefits expenses	**$ 67**	$ 23	$ 57	**$ 41**	$ 16	$ 18
Weighted Average Actuarial Assumptions (%)						
Discount rate for accrued benefit obligations	**6.70**	8.10	8.10	**6.60**	–	–
Rate of compensation increase	**4.20**	4.20	3.80	**4.20**	–	–
Expected long-term rate of return on plan assets	**8.20**	8.40	8.40	**8.00**	–	–

(a) Prior to November 1, 2000, we recognized the expense for other future employee benefits when it was incurred. Effective November 1, 2000, we recorded an actuarially determined liability and expense for these benefits as required by the new accounting standard described above.

Included in the accrued pension benefit obligation as at October 31, 2001 is $763 ($123 in 2000; $100 in 1999) and included in the fair value of plan assets for pension benefits as at October 31, 2001 is $596 (nil in 2000; nil in 1999) in respect of plans that are not fully funded.

As at October 31, 2001, the pension plan assets consisted of equities (56%) and fixed income investments (44%). The plans paid $4 for the year ended October 31, 2001 ($4 in 2000) to the Bank and certain of its subsidiaries for investment management, record-keeping, custodial and administrative services rendered on the same terms that we offer to our customers.

We used an assumed weighted average discount rate of 6.90% (8.10% for 2000; 7.60% for 1999) to determine our pension expense and 6.90% to determine other future employment benefit expense for the year ended October 31, 2001.

We assumed a weighted average overall health care cost trend rate of 5.58% to determine our expected cost of benefits provided under our other future employee benefits plans. This rate was assumed to decrease gradually to 4.24% in 2005 and remain at that level thereafter. The effect of a one percentage point increase in the weighted average assumed health care cost trend rate would increase both our obligation by $77 and our benefit expense by $8. The effect of a one percentage point decrease in the weighted average assumed health care cost trend rate would decrease both our obligation by $62 and our benefit expense by $6.

Comparative Pension Benefit Plan figures for 1999 have been restated to include amounts related to the Canadian supplemental unfunded retirement arrangement.

Stock-Based Compensation Plans

We have a number of stock-based compensation plans for employees which are discussed below. Compensation expense related to these plans is included in salaries and employee benefits in our Consolidated Statement of Income. In addition to these plans, we provide a stock option plan for designated officers and employees. Information on this plan is included in Note 14.

Share Purchase Plan

We offer our employees the option of contributing a portion of their gross salary toward the purchase of our shares. For employee contributions up to 6% of gross pay, we match 50% of the contribution. We account for the Bank's contribution as compensation expense when it is contributed to the plan. Compensation expense related to this plan was $26 for the year ended October 31, 2001, $17 for the year ended October 31, 2000 and $4 for the year ended October 31, 1999.

Mid-Term Incentive Program

Beginning in fiscal 2000, we introduced a mid-term incentive program for executives. Under this plan, a cash bonus is paid at the end of each three-year period based on performance targets driven by annualized total shareholder return compared with that of our competitors. Compensation expense for this plan is recorded over the three-year performance cycle for the plan.

The amount of compensation expense is adjusted over the three-year performance cycle to reflect the current market prices of our common shares and those of our competitors. Compensation expense related to this plan was $51 for the year ended October 31, 2001 and nil for the year ended October 31, 2000.

Deferred Bonus Plans

Beginning in fiscal 2000, we introduced deferred bonus plans for certain senior executives and certain key employees in our Investment Banking Group. Under these plans, payment of annual bonuses can be deferred as stock units of our common shares. The amount of deferred bonus is adjusted to reflect dividends and changes in the market value of our common shares. Deferred bonuses for senior executives are paid when the executive retires or resigns, and may be paid in cash, common shares or a combination of both. Deferred bonuses for employees are paid out evenly in cash at the end of each year over the three years following the year in which the bonus is earned. Compensation expense for these plans is recorded in the year the bonus is earned. Changes in the amount of the bonus payable as a result of dividends and share price movements are recognized as compensation expense in the period of the change. Compensation expense related to these plans was $25 for the year ended October 31, 2001 and $3 for the year ended October 31, 2000.

Note 19: Related Party Transactions

We provide banking services to our joint ventures and equity-accounted investments on the same terms that we offer to our customers. In addition, we make loans to current and former directors, officers and employees at various rates and terms. The interest earned on these loans is recorded in interest, dividend and fee income in our Consolidated Statement of Income.

The amounts outstanding under these loan agreements are:

	2001	2000
Mortgage loans	**$ 344**	$ 525
Personal loans	**285**	362
Total	**$ 629**	$ 887

Note 20: Risk Management

Our business necessitates the management of several categories of risk including credit, market, liquidity and operational risks. Certain information about our exposure to these risks such as the allowance for credit losses, trading revenue, derivative financial instruments and fair value of financial instruments are set out in the consolidated financial statements. A summary of our interest rate gap position and effective interest rates on our financial instrument assets and liabilities is set out on page 52 of our Management's Discussion and Analysis.

Note 21: Contingent Liabilities

(a) Legal Proceedings

BMO Nesbitt Burns Inc., an indirect subsidiary of Bank of Montreal, has been named as a defendant in several class and individual actions in Canada and a class action in the United States brought on behalf of shareholders of Bre-X Minerals Ltd. ("Bre-X"). Other defendants named in one or more of these actions include Bre-X, officers and directors of Bre-X, a mining consulting firm retained by Bre-X, Bre-X's financial advisor, brokerage firms which sold Bre-X common stock, and a major gold production company. These actions are largely based on allegations of negligence, negligent or fraudulent misrepresentation and a breach of the *U.S. Securities Exchange Act of 1934* (United States only), in connection with the sale of Bre-X securities. Two of the proposed class actions in Canada have been dismissed as to BMO Nesbitt Burns Inc. All of the other actions are at a preliminary stage, with discovery recently begun in the United States action. Based upon information presently available, counsel for BMO Nesbitt Burns Inc. are not in a position to express an opinion as to the likely outcome of any of these actions. Management is of the view that BMO Nesbitt Burns Inc. has strong defences and will vigorously defend against all such actions.

The Bank and its subsidiaries are party to other legal proceedings in the ordinary course of their businesses. Management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or results of the Bank's operations.

(b) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. We had pledged investment and trading account securities and other assets totalling $31,388 as at October 31, 2001 and $32,425 as at October 31, 2000 as security for call loans, securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities. Additionally, we had deposited assets in the amount of $1,846 as at October 31, 2001 and $560 as at October 31, 2000 to act as security for our participation in clearing and payment systems and as security for contract settlements with derivatives exchanges or other derivative counterparties.

The following table summarizes our assets pledged:

	2001	2000
Cash	**$ 260**	$ 67
Securities		
Issued or guaranteed by Canada	**3,659**	3,453
Issued or guaranteed by a Canadian province, municipality or school corporation	**923**	505
Other securities	**10,792**	13,066
Other assets	**17,600**	15,894
Total assets pledged	**$ 33,234**	$ 32,985

Excludes restricted cash resources disclosed in Note 2.

Note 22: Derivative Financial Instruments

We enter into interest rate, foreign exchange, equity and commodity contracts to enable customers to manage risk, and for asset/liability management ("ALM") purposes where we manage our on- and off-balance sheet positions.

Customer trading derivative transactions are comprised of sales and other activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks. Other activities include market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. We may also take proprietary trading positions in various capital markets instruments and derivatives, which are designed to profit from anticipated changes in market factors.

Customer trading derivatives are marked to market. Realized and unrealized gains and losses are recorded in other income. A portion of the income derived from marking derivatives to market in respect of credit, model and liquidity risks as well as administrative costs is deferred and amortized to income over the life of the contracts. Unrealized gains on trading derivatives are recorded in other assets and unrealized losses are recorded in other liabilities.

In accordance with our risk management strategy, we entered into various derivative instruments to hedge our interest rate and foreign currency exposures. We manage structural foreign currency risk primarily through cross-currency swaps and forward foreign exchange contracts. Cross-currency swaps are marked to market with realized and unrealized gains and losses recorded in income. Forward foreign exchange contracts are accounted for on the accrual basis, under which income and expense from the contracts is accrued and recorded in other assets and other liabilities, and there is no recognition of unrealized gains and losses in the balance sheet. We also use forward foreign exchange contracts periodically to hedge contractual U.S. dollar revenues to minimize fluctuations in U.S. dollar earnings. These forward foreign exchange contracts mature monthly as related revenues are recognized and the realized gains and losses on these contracts are then recorded in income.

We manage structural interest rate risk primarily through ALM derivatives such as interest rate swaps and options, which are linked to and adjust the interest rate sensitivity of a specific asset, liability, firm commitment or a specific pool of transactions with similar risk characteristics. These include fair value hedges which modify exposure to interest rate risk by converting fixed rate assets and liabilities to a floating rate, and cash flow hedges which hedge exposure to variability in cash flows for variable rate interest bearing instruments. Our fair value hedges are primarily hedges of fixed rate deposits and mortgages. Our cash flow hedges, which have a maximum term of five years, are primarily hedges of floating rate deposits and commercial and personal loans. A derivative will qualify as a hedge if the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge. In addition, changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on-balance sheet items or changes in the amount of future cash flows. The effectiveness of these hedging relationships is evaluated on a retrospective and prospective basis using quantitative statistical measures. If a hedge relationship is found to be ineffective, the derivative is redesignated as customer trading and changes in fair value are reported in other income. Swaps and options that qualify as hedges are accounted for on the accrual basis. For interest rate swaps, interest income received and interest expense paid on the derivative is accrued as an adjustment to the yield of the item being hedged over the term of the hedge contract. For purchased options, premiums are amortized to interest expense over the term of the contract. Accrued interest receivable and payable and deferred gains and losses for these contracts are recorded in other assets or liabilities as appropriate. Realized gains and losses from the settlement or the early termination of hedge contracts are deferred and amortized over the remaining original life of the hedging instrument. Subsequent changes in the fair value of derivatives originally identified as hedges, but which are no longer effective as hedges, are redesignated as customer trading and are reported in other income.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved a new accounting guideline on accounting for hedging relationships. The guideline will not change our accounting for ALM derivatives as our existing policies already comply with this new guideline.

Derivative transactions, which are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets, include:

Swaps

Swaps are contractual agreements between two parties to exchange a series of cash flows.

For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. The main risks associated with these instruments are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of assets and liabilities.

For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies.

For cross-currency interest rate swaps, principal amounts and fixed and floating interest payments are exchanged in different currencies.

For commodity swaps, counterparties generally exchange fixed and floating rate payments based on a notional value in a single commodity.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. Risks arise from the possible inability of over-the-counter counterparties to meet the terms of their contracts and from movements in securities values, interest rates and foreign exchange rates.

Options

Options are contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a currency, commodity or financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

For options written by us, we receive a premium from the purchaser for accepting market risk. For options purchased by us, a premium is paid for the right to exercise the option, but we sustain credit risk due to the uncertainty as to the writer's ability to fulfill the conditions of the contract. Also included in options are caps, collars and floors, which are contractual agreements where the writer agrees to pay the purchaser, based on a specified notional amount, the agreed upon difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

We conduct our trading activities through business units dealing in both on- and off-balance sheet positions, including derivatives, which are marked to market. The revenue generated by these units is set out on page 10 of our Management's Discussion and Analysis.

Losses incurred on defaults of counterparties charged to the allowance for credit losses in the years ended October 31, 2001, 2000 and 1999 were not significant.

The effect of asset/liability management derivatives on net interest income and the net amount of deferred realized losses was:

	2001	2000	1999
Increase (decrease) in net interest income	**$ 8**	$ 94	$ 27
Deferred realized (losses)	**$ (10)**	$ (15)	$ (1)

One technique that we use to reduce credit exposure is master netting agreements with customers, which allow us to net amounts due to/from a customer should the customer default on a contract.

The following table summarizes our derivative portfolio and related credit exposure:

Notional amount: represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost: represents the cost of replacing, at current market rates, all contracts which have a positive fair value, in effect the unrealized gains. Derivative instruments transacted through exchanges are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-weighted assets as they are deemed to have no additional credit risk. The amounts take into consideration offsetting, when we have a legally enforceable right to offset and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Credit risk equivalent: represents the total replacement cost and potential future credit exposure.

Risk-weighted balance: represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the Superintendent of Financial Institutions Canada.

	2001						2000					
	Notional amount						Notional amount					
	Customer trading	Asset/ liability manage- ment	Total	Replace- ment cost	Credit risk equivalent	Risk- weighted balance	Customer trading	Asset/ liability manage- ment	Total	Replace- ment cost	Credit risk equivalent	Risk- weighted balance
Interest Rate Contracts												
Over-the-counter												
Swaps	**$ 1,243,277**	**$ 41,336**	**$ 1,284,613**	**$ 13,649**	**$ 16,978**	**$ 4,793**	$ 456,347	$ 29,035	$ 485,382	$ 3,608	$ 4,797	$ 1,316
Forward rate agreements	**384,064**	**–**	**384,064**	**326**	**375**	**82**	144,973	–	144,973	59	66	13
Purchased options	**91,628**	**985**	**92,613**	**2,098**	**2,532**	**724**	88,852	147	88,999	782	1,015	261
Written options	**101,177**	**5**	**101,182**	**–**	**–**	**–**	96,265	28	96,293	–	–	–
	1,820,146	**42,326**	**1,862,472**	**16,073**	**19,885**	**5,599**	786,437	29,210	815,647	4,449	5,878	1,590
Exchange traded												
Futures	**158,613**	**–**	**158,613**	**–**	**–**	**–**	122,453	724	123,177	–	–	–
Purchased options	**61,958**	**–**	**61,958**	**–**	**–**	**–**	45,515	–	45,515	–	–	–
Written options	**56,202**	**–**	**56,202**	**–**	**–**	**–**	28,131	–	28,131	–	–	–
	276,773	**–**	**276,773**	**–**	**–**	**–**	196,099	724	196,823	–	–	–
Total Interest Rate Contracts	**2,096,919**	**42,326**	**2,139,245**	**16,073**	**19,885**	**5,599**	982,536	29,934	1,012,470	4,449	5,878	1,590
Foreign Exchange Contracts												
Over-the-counter												
Cross-currency swaps	**18,133**	**–**	**18,133**	**180**	**1,210**	**451**	15,272	–	15,272	122	638	253
Cross-currency interest rate swaps	**45,117**	**6,867**	**51,984**	**996**	**3,202**	**712**	38,293	6,903	45,196	1,076	2,288	496
Forward foreign exchange contracts	**157,965**	**2,052**	**160,017**	**1,865**	**4,238**	**1,218**	145,148	6,502	151,650	3,053	4,208	1,044
Purchased options	**59,589**	**–**	**59,589**	**603**	**1,235**	**336**	51,165	–	51,165	933	1,265	342
Written options	**72,549**	**–**	**72,549**	**–**	**–**	**–**	60,421	–	60,421	–	–	–
	353,353	**8,919**	**362,272**	**3,644**	**9,885**	**2,717**	310,299	13,405	323,704	5,184	8,399	2,135
Exchange traded												
Futures	**515**	**1**	**516**	**–**	**–**	**–**	1,441	–	1,441	–	–	–
Purchased options	**2,856**	**–**	**2,856**	**–**	**–**	**–**	981	–	981	–	–	–
Written options	**1,660**	**–**	**1,660**	**–**	**–**	**–**	658	–	658	–	–	–
	5,031	**1**	**5,032**	**–**	**–**	**–**	3,080	–	3,080	–	–	–
Total Foreign Exchange Contracts	**358,384**	**8,920**	**367,304**	**3,644**	**9,885**	**2,717**	313,379	13,405	326,784	5,184	8,399	2,135
Commodity Contracts												
Over-the-counter												
Swaps	**17,159**	**–**	**17,159**	**1,128**	**3,275**	**1,550**	16,335	–	16,335	1,781	3,043	1,421
Purchased options	**14,009**	**–**	**14,009**	**2,518**	**3,976**	**1,838**	16,825	–	16,825	2,444	4,119	1,894
Written options	**13,850**	**–**	**13,850**	**–**	**–**	**–**	16,487	–	16,487	–	–	–
	45,018	**–**	**45,018**	**3,646**	**7,251**	**3,388**	49,647	–	49,647	4,225	7,162	3,315
Exchange traded												
Futures	**643**	**–**	**643**	**–**	**–**	**–**	1,337	–	1,337	–	–	–
Purchased options	**306**	**–**	**306**	**–**	**–**	**–**	799	–	799	–	–	–
Written options	**561**	**–**	**561**	**–**	**–**	**–**	806	–	806	–	–	–
	1,510	**–**	**1,510**	**–**	**–**	**–**	2,942	–	2,942	–	–	–
Total Commodity Contracts	**46,528**	**–**	**46,528**	**3,646**	**7,251**	**3,388**	52,589	–	52,589	4,225	7,162	3,315
Equity Contracts												
Over-the-counter	**8,232**	**182**	**8,414**	**173**	**623**	**285**	8,995	163	9,158	71	628	285
Exchange traded	**1,794**	**–**	**1,794**	**–**	**–**	**–**	1,540	–	1,540	–	–	–
Total Equity Contracts	**10,026**	**182**	**10,208**	**173**	**623**	**285**	10,535	163	10,698	71	628	285
Subtotal	**2,511,857**	**51,428**	**2,563,285**	**23,536**	**37,644**	**11,989**	1,359,039	43,502	1,402,541	13,929	22,067	7,325
Impact of Master Netting Agreements	**na**	**na**	**na**	**(11,563)**	**(22,123)**	**(6,281)**	na	na	na	(6,919)	(8,823)	(2,587)
Total	**$ 2,511,857**	**$ 51,428**	**$ 2,563,285**	**$ 11,973**	**$ 15,521**	**$ 5,708**	$ 1,359,039	$ 43,502	$ 1,402,541	$ 7,010	$ 13,244	$ 4,738

Included in the notional amounts is $2,520 as at October 31, 2001 and $1,701 as at October 31, 2000 related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers with all gains and losses accruing to them.

Replacement cost is the total of unrealized gains and amounts receivable on derivative contracts. We excluded exchange traded instruments with unrealized gains of nil as at October 31, 2001 and $158 as at October 31, 2000 because we are not required to provide capital against these instruments. Included in the total are unrealized gains on asset/liability management derivatives which we include in the Consolidated Balance Sheet on an accrual rather than market basis. The excess of market value over book value for these items was $483 as at October 31, 2001 and $90 as at October 31, 2000.

Certain October 31, 2000 amounts have been restated to conform to October 31, 2001 presentation

na – not applicable.

Transactions are conducted with counterparties in various geographic locations and industries. Set out below is the replacement cost of contracts from customers located in the following countries based on country of ultimate risk:

	2001		2000	
Canada	$ 4,639	20%	$ 2,403	17%
United States	11,694	50	7,022	51
Other countries	7,203	30	4,504	32
Total	$ 23,536	100%	$ 13,929	100%

Set out below is the replacement cost of contracts from customers in the following industries:

	2001								2000							
	Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts		Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts	
Financial institutions	$ 13,504	84%	$ 2,590	71%	$ 1,129	31%	$ 100	58%	$ 4,054	91%	$ 4,210	81%	$ 1,352	32%	$ 62	88%
Other	2,569	16	1,054	29	2,517	69	73	42	395	9	974	19	2,873	68	9	12
Total	$ 16,073	100%	$ 3,644	100%	$ 3,646	100%	$ 173	100%	$ 4,449	100%	$ 5,184	100%	$ 4,225	100%	$ 71	100%

Set out below are the maturities and weighted average interest rates paid and received on derivative contracts:

	Term to maturity										2001	2000
	Within 1 year	Rate %	1 to 3 years	Rate %	3 to 5 years	Rate %	5 to 10 years	Rate %	Over 10 years	Rate %	Total notional amount	Total notional amount
Interest Rate Contracts												
Fixed/Floating Swaps												
Canadian $ pay fixed	$ 27,453	4.69	$ 27,996	5.37	$ 11,962	5.82	$ 10,094	5.96	$ 2,330	6.25	$ 79,835	$ 61,842
Canadian $ receive fixed	23,901	4.72	34,993	5.28	18,579	5.64	16,543	5.82	2,011	6.30	96,027	73,442
US $ pay fixed	54,582	5.24	42,006	5.40	17,835	5.81	19,160	6.33	4,630	6.80	138,213	106,933
US $ receive fixed	35,891	4.88	33,016	5.46	17,397	5.90	18,292	6.22	4,473	7.12	109,069	80,411
Basis swaps	9,847	na	5,272	na	2,304	na	3,441	na	159	na	21,023	22,359
Other swaps	711,454	na	91,158	na	13,873	na	22,778	na	1,183	na	840,446	140,395
Total interest rate swaps	863,128		234,441		81,950		90,308		14,786		1,284,613	485,382
Forward rate agreements, futures and options	694,278	na	97,213	na	30,998	na	27,934	na	4,209	na	854,632	527,088
Total Interest Rate Contracts	1,557,406	na	331,654	na	112,948	na	118,242	na	18,995	na	2,139,245	1,012,470
Foreign Exchange Contracts												
Cross-currency swaps	376	na	10,979	na	1,254	na	4,567	na	957	na	18,133	15,272
Cross-currency interest rate swaps	16,664	na	14,735	na	9,656	na	9,382	na	1,547	na	51,984	45,196
Forward foreign exchange contracts, futures and options	284,086	na	11,840	na	865	na	369	na	27	na	297,187	266,316
Total Foreign Exchange Contracts	301,126	na	37,554	na	11,775	na	14,318	na	2,531	na	367,304	326,784
Commodity Contracts												
Swaps	10,523	na	4,942	na	1,090	na	604	na	–	na	17,159	16,335
Futures and options	23,510	na	5,855	na	4	na	–	na	–	na	29,369	36,254
Total Commodity Contracts	34,033	na	10,797	na	1,094	na	604	na	–	na	46,528	52,589
Total Equity Contracts	9,675	na	229	na	286	na	–	na	18	na	10,208	10,698
Total	$ 1,902,240	na	$ 380,234	na	$ 126,103	na	$ 133,164	na	$ 21,544	na	$ 2,563,285	$ 1,402,541

na – not applicable as weighted average rates are not meaningful.

US $ amounts are presented in Canadian $ equivalents.

Rates represent the weighted average interest rates which we are contractually committed to pay/receive until the swap matures. The floating side of substantially all Canadian $ swaps is based on the one-month or three-month Canadian Bankers' Acceptance Rate. For US $ swaps the floating side is generally based on the one-month, three-month or six-month London Interbank Offered Rate.

Basis swaps are floating interest rate swaps where amounts paid and received are based on different indices or pricing periods.

Other swaps are contracts where the fixed side is denominated in a source currency other than Canadian $ or US $.

The following table provides the fair value of our derivative financial instruments portfolio, which is represented by the sum of net unrealized gains and losses, accrued interest receivable or payable and premiums paid or received:

	2001							2000		
	Customer trading			Asset/liability management			Total	Customer trading	Asset/ liability management	Total
	Gross assets	Gross liabilities	Net	Gross assets	Gross liabilities	Net	Net	Net	Net	Net
Interest Rate Contracts										
Swaps	$ 12,748	$(13,604)	$ (856)	$ 901	$ (586)	$ 315	$ (541)	$ (595)	$ 121	$ (474)
Forward rate agreements	326	(305)	21	–	–	–	21	4	–	4
Futures	14	(7)	7	–	–	–	7	6	–	6
Purchased options	2,227	93	2,320	1	–	1	2,321	949	2	951
Written options	–	(1,815)	(1,815)	–	–	–	(1,815)	(781)	(2)	(783)
Foreign Exchange Contracts										
Cross-currency swaps	180	(441)	(261)	–	–	–	(261)	(73)	–	(73)
Cross-currency interest rate swaps	1,112	(1,501)	(389)	(116)	19	(97)	(486)	172	(223)	(51)
Forward foreign exchange contracts	1,857	(1,360)	497	9	(8)	1	498	296	(9)	287
Futures	–	–	–	–	–	–	–	–	–	–
Purchased options	612	–	612	–	–	–	612	952	–	952
Written options	–	(661)	(661)	–	–	–	(661)	(765)	–	(765)
Commodity Contracts										
Swaps	1,142	(1,143)	(1)	–	–	–	(1)	(3)	–	(3)
Futures	–	–	–	–	–	–	–	(2)	–	(2)
Purchased options	2,587	–	2,587	–	–	–	2,587	2,531	–	2,531
Written options	–	(2,412)	(2,412)	–	–	–	(2,412)	(1,914)	–	(1,914)
Equity Contracts	172	(109)	63	26	–	26	89	(79)	34	(45)
Total Fair Value	$ 22,977	$(23,265)	$ (288)	$ 821	$ (575)	$ 246	$ (42)	$ 698	$ (77)	$ 621
Total Book Value	$ 22,977	$(23,265)	$ (288)	$ 338	$ (381)	$ (43)	$ (331)	$ 698	$ (43)	$ 655
Average Fair Value	$ 18,151	$(17,669)	$ 482	$ 540	$ (694)	$ (154)	$ 328	$ 731	$ (29)	$ 702

In order to calculate fair values:

- Instruments are marked to market using quoted market rates and/or zero coupon valuation techniques.
- Zero coupon curves are created using generally accepted mathematical processes from underlying instruments such as cash, bonds, futures and off-balance sheet prices observable in the market.
- Option implied volatilities are either obtained directly from market sources or calculated from market prices utilizing the appropriate option pricing models given our assessment and market conventions.

Assets are shown net of liabilities to customers where we have an enforceable right to offset amounts and we intend to settle contracts on a net basis.

Note 23: Fair Value of Financial Instruments

As a financial institution we record trading assets at market values and non-trading assets and liabilities at their original amortized cost less allowances or write-downs for impairment. Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. The values are based upon the estimated amounts for individual assets and liabilities and do not include an estimate of the fair value of any of our legal entities or underlying operations that comprise our business.

Fair value generally represents our estimate of the amounts we could exchange the financial instruments for with third parties who were interested in acquiring the instruments. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In those cases, we have estimated fair value assuming that we will not sell the assets or liabilities, taking into account only changes in interest rates and credit risk that have occurred since we acquired them or entered into a contract.

Interest rate changes are the main cause of change in the fair value of our financial instruments.

Premises and equipment are not financial instruments and have been excluded from our estimate of fair value. The net amounts excluded totalled $2,170 as at October 31, 2001 and $2,171 as at October 31, 2000.

Set out below is a comparison of the amounts which would be reported if all of our financial instrument assets and liabilities were reported at their fair values:

	2001				2000			
	Book value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value	Book value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value
Assets								
Cash resources	$ 17,656	$ 17,656	$ –	$ –	$ 18,508	$ 18,508	$ (9)	$ (9)
Securities (Note 3)	37,676	37,920	(368)	(124)	46,463	46,648	40	225
Loans	136,829	137,310	67	548	133,817	132,730	(91)	(1,178)
Customers' liability under acceptances	7,936	7,936	–	–	8,630	8,630	–	–
Other assets	37,142	37,142	–	–	23,807	23,807	–	–
	237,239	237,964	(301)	424	231,225	230,323	(60)	(962)
Liabilities								
Deposits	154,290	155,390	(588)	512	156,697	156,730	(64)	(31)
Acceptances	7,936	7,936	–	–	8,630	8,630	–	–
Securities sold but not yet purchased	6,609	6,609	–	–	9,353	9,353	–	–
Securities sold under repurchase agreements	17,480	17,480	–	–	19,749	19,749	–	–
Other liabilities	37,738	37,738	–	–	22,115	22,117	–	2
Subordinated debt	4,674	5,018	(2)	342	4,911	5,078	38	205
	$ 228,727	$ 230,171	$ (590)	$ 854	$ 221,455	$ 221,657	$ (26)	$ 176
Total				$ (430)				$ (1,138)

ALM – asset/liability management derivatives which we use to manage the interest rate and foreign exchange exposures arising from our on-balance sheet positions.

The following sets out the valuation methods and assumptions that we have used to estimate fair value.

Due to the short-term nature of certain assets and liabilities, we believe that the book value is comparable to the estimated fair value. These assets and liabilities include:

- customers' liability under acceptances
- other assets
- acceptances
- securities sold but not yet purchased
- securities sold under repurchase agreements
- other liabilities, excluding liabilities of subsidiaries, other than deposits.

The fair values of loans are determined using a variety of valuation methods, depending on the nature of the loan:

- Fair value of performing loans is calculated by adjusting the original value of the loan for changes in credit risk and interest rates since the time we granted the loan.
- Fair value of impaired loans is equal to the book value which is calculated using the basis of valuation described in Notes 4 and 5.

The fair value of our deposits is determined by discounting the cash flows to be paid on the deposits using market interest rates currently offered for similar deposits.

The fair value of our subordinated debt and liabilities of subsidiaries is determined by referring to current market prices for similar debt instruments.

Note 24: Reconciliation of Canadian and United States Generally Accepted Accounting Principles

We prepare our consolidated financial statements in accordance with generally accepted accounting principles (referred to as "GAAP") in Canada, including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada. Set out below are the more significant differences which would result if United States generally accepted accounting principles were applied in the preparation of our consolidated financial statements.

Condensed Consolidated Balance Sheet

As at October 31 (Canadian $ in millions)

	2001			2000		
	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP
Assets						
Cash Resources	$ 17,656	$ –	$ 17,656	$ 18,508	$ –	$ 18,508
Securities	37,676	352	38,028	46,463	305	46,768
Loans, net of the allowance for credit losses	136,829	5	136,834	133,817	–	133,817
Other	47,248	287	47,535	34,608	(167)	34,441
Total Assets	$ 239,409	$ 644	$ 240,053	$ 233,396	$ 138	$ 233,534
Liabilities and Shareholders' Equity						
Deposits	$ 154,290	$ (20)	$ 154,270	$ 156,697	$ –	$ 156,697
Other Liabilities	69,763	245	70,008	59,847	283	60,130
Subordinated Debt	4,674	150	4,824	4,911	–	4,911
Shareholders' Equity (1)	10,682	269 (7)	10,951	11,941	(145) (7)	11,796
Total Liabilities and Shareholders' Equity	$ 239,409	$ 644	$ 240,053	$ 233,396	$ 138	$ 233,534

Condensed Consolidated Statement of Income

For the Year Ended October 31 (Canadian $ in millions except per share amounts)			2001			2000			1999
	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP
Interest, Dividend and Fee Income	**$ 13,000**	**$ –**	**$ 13,000**	$ 14,303	$ –	$ 14,303	$ 13,174	$ (34)(2)	$ 13,140
Interest Expense	**8,501**	**–**	**8,501**	10,099	–	10,099	8,895	–	8,895
Net Interest Income	**4,499**	**–**	**4,499**	4,204	–	4,204	4,279	(34)	4,245
Provision for credit losses	**980**	**–**	**980**	358	–	358	320	–	320
Net Interest Income After Provision for Credit Losses	**3,519**	**–**	**3,519**	3,846	–	3,846	3,959	(34)	3,925
Other Income	**4,222**	**45**(3,4,5[vi])	**4,267**	4,326	(19)(3)	4,307	3,511	(15)(3)	3,496
Net Interest and Other Income	**7,741**	**45**	**7,786**	8,172	(19)	8,153	7,470	(49)	7,421
Total non-interest expense before restructuring charge	**5,671**	**56**(5)	**5,727**	5,301	111(5)	5,412	5,147	161(5)	5,308
Restructuring charge	**–**	**–**	**–**	(43)	–	(43)	141	–	141
Total non-interest expense	**5,671**	**56**	**5,727**	5,258	111	5,369	5,288	161	5,449
Income Before Provision for Income Taxes, Non-Controlling Interest in Subsidiaries and Goodwill	**2,070**	**(11)**	**2,059**	2,914	(130)	2,784	2,182	(210)	1,972
Income taxes	**501**	**1**(6)	**502**	989	(35)(6)	954	736	(58)	678
	1,569	**(12)**	**1,557**	1,925	(95)	1,830	1,446	(152)	1,294
Non-controlling interest	**42**	**–**	**42**	19	–	19	21	–	21
Net Income Before Goodwill	**1,527**	**(12)**	**1,515**	1,906	(95)	1,811	1,425	(152)	1,273
Amortization of goodwill, net of applicable income tax	**56**	**(56)**(5[iv])	**–**	49	(49)(5[iv])	–	43	(43)(5[iv])	–
Net Income	**$ 1,471**	**$ 44**	**$ 1,515**	$ 1,857	$ (46)	$ 1,811	$ 1,382	$ (109)	$ 1,273
Earnings per share									
Basic	**$ 2.72**	**$ 0.09**	**$ 2.81**	$ 3.30	$ (0.08)	$ 3.22	$ 2.38	$ (0.21)	$ 2.17
Diluted	**2.66**	**0.09**	**2.75**	3.25	(0.07)	3.18	2.34	(0.20)	2.14

Consolidated Statement of Comprehensive Income

For the Year Ended October 31 (Canadian $ in millions)	2001	2000	1999
Net Income (under United States GAAP)	**$ 1,515**	$ 1,811	$ 1,273
Other Comprehensive Income, net of tax:			
Unrealized gain (loss) on translation of net investments in foreign operations, net of hedging activities (a)	**179**	143	(154)
Unrealized translation loss on disposition of an investment in a foreign operation	**18**	–	–
Unrealized holding gains (losses) arising on available for sale securities, net of hedging activities (b)	**3**	307	(426)
Realized (gains) losses and write-downs on available for sale securities recognized in net income (c)	**(57)**	(42)	49
Net transition adjustment gain on derivatives designated as cash flow hedges (d)	**13**	–	–
Unrealized gains arising on derivatives designated as cash flow hedges (e)	**258**	–	–
Net (losses) on derivatives designated as cash flow hedges recognized in net income (f)	**(22)**	–	–
Total Other Comprehensive Income	**392**	408	(531)
Comprehensive Income	**$ 1,907**	$ 2,219	$ 742

(a) Net of income taxes of $182 ($153 in 2000, $168 in 1999).
(b) Net of income taxes of $2 ($222 in 2000, $310 in 1999).
(c) Net of income taxes of $41 ($30 in 2000, $36 in 1999).
(d) Net of income taxes of $9.
(e) Net of income taxes of $182.
(f) Net of income taxes of $16.

(1) The accumulated balances related to each component of other comprehensive income, net of tax, are as follows:

	2001	2000
Unrealized gains on translation of net investments in foreign operations, net of hedging activities	**$ 500**	$ 303
Net unrealized gains on available for sale securities (i)	**29**	83
Unrealized gains on derivatives designated as cash flow hedges (ii)	**249**	–
Total Accumulated Other Comprehensive Income	**$ 778**	$ 386

(i) Under United States GAAP, we have designated as available for sale securities all of our investment securities, other than our investment in investment securities accounted for using the equity method. Available for sale securities are carried at fair value, with any unrealized gains (losses) recognized in other comprehensive income. Under Canadian GAAP, investment securities are carried at cost or at amortized cost.

(ii) Under United States GAAP, derivatives designated as cash flow hedges are carried at fair value, with any unrealized gains (losses) recognized in other comprehensive income, to the extent the hedge is effective. Under Canadian GAAP, derivatives designated as cash flow hedges are accounted for on the accrual basis, with gains (losses) deferred and recognized on the same basis as the underlying hedged item.

(2) Under United States GAAP, the fair value of securities received in a restructuring as settlement of a claim for past-due interest on a loan is recognized in income when received. Under Canadian GAAP, we record the securities at a nominal value when received and recognize any gains in income only when the securities are sold.

(3) Under United States GAAP, gains on all securitized assets are recognized at the date of the securitization. Under Canadian GAAP, prior to July 1, 2001, gains on sale of NHA-insured mortgages were recognized at the date of the securitization and gains on sale of other assets securitized were deferred and recognized over the life of the assets securitized. Effective July 1, 2001, we adopted a new Canadian accounting standard on securitizations that eliminates this difference between Canadian and United States GAAP. There will continue to be an adjustment to our Consolidated Statement of Income until the deferred gains related to assets securitized prior to July 1, 2001 have all been recognized in income.

(4) Under United States GAAP, we adopted a new accounting standard on derivatives and hedging effective November 1, 2000. Under this new standard, all derivatives are recognized at fair value in the balance sheet. Changes in fair value of derivatives that are not hedges are recognized in the Consolidated Statement of Income as they arise. If the derivative is a hedge, depending on the nature of the hedge, a change in the fair value of the derivative is either offset in our Consolidated Statement of Income against the change in the fair value of the hedged asset, liability or firm commitment or is recognized in other comprehensive income until the hedged item is recognized in the Consolidated Statement of Income. If the change in the fair value of the derivative is not completely offset by the change in the value of the item it is hedging, the difference is recognized immediately in our Consolidated Statement of Income.

When we adopted this new United States GAAP standard on November 1, 2000, it increased consolidated assets by $163, increased consolidated liabilities by $149, increased other comprehensive income by $13 and increased net income by $1. Because the transition adjustment is not material to our consolidated net income, the adjustment to net income was included in other income on a before-tax basis rather than shown separately as the cumulative effect of an accounting change.

Under current Canadian GAAP and United States GAAP prior to November 1, 2000, hedge derivatives are accounted for on an accrual basis, with gains or losses deferred and recognized on the same basis as the underlying hedged item.

(5) The impact on non-interest expense of applying United States GAAP to non-interest expense before restructuring charge is as follows:

	2001	2000	1999
Increase (decrease)			
Stock options (i)	**$ 40**	$ 32	$ 24
Software development costs (ii)	**(44)**	(47)	–
Pension and related benefits (iii)	**8**	82	72
Amortization of goodwill (iv)	**62**	54	49
Amortization of goodwill (v)	**(10)**	(10)	(10)
Foreign currency translation (vi)	**–**	–	18
Merger costs (vii)	**–**	–	8
Total	**$ 56**	$ 111	$ 161

(i) Under United States GAAP, the fair value of stock options granted is recognized as compensation expense over the period that the options vest. Under Canadian GAAP, we include the amount of proceeds in shareholders' equity when the options are exercised.
(ii) Under United States GAAP, we adopted a new accounting standard on software development costs effective November 1, 1999. Under this new standard, certain costs of internally developed software are required to be capitalized and amortized over the expected useful life of the software. Under Canadian GAAP, all costs of internally developed software are expensed as incurred.
(iii) Under United States GAAP, both pension and other future employee benefits are recognized in our Consolidated Statement of Income in the period services are provided by our employees. The related obligations are valued using current market rates. Under Canadian GAAP, prior to November 1, 2000, pension benefits were recognized in our Consolidated Statement of Income in the period services were provided by our employees, with the corresponding obligation valued using management's best estimate of the long-term rate of return on assets, while other future employee benefits were expensed as incurred. Effective November 1, 2000, we adopted a new Canadian accounting standard on pensions and other future employee benefits that eliminates this difference between Canadian and United States GAAP. When we adopted this new standard, we accounted for the change in accounting as a charge to retained earnings. As a result, there will continue to be an adjustment to our Consolidated Statement of Income until amounts, previously deferred under United States GAAP have been fully amortized to income.
(iv) Under Canadian GAAP, goodwill amortization expense is permitted to be presented net-of-tax on a separate line in the Consolidated Statement of Income. This presentation is not permitted under United States GAAP.
(v) Under United States GAAP, our acquisition of Suburban Bank Corp. would have been accounted for using the pooling of interests method. Under Canadian GAAP, we accounted for this acquisition using the purchase method. This resulted in the recognition of goodwill associated with the acquisition.
(vi) Under United States GAAP, Mexico was prescribed by the Securities and Exchange Commission to be a highly inflationary economic environment for our quarter beginning February 1, 1997 up to and including our quarter ended January 31, 1999. As a result, translation losses on our investment in Bancomer were required to be reported in net income under United States GAAP. Under Canadian GAAP, Mexico was not considered to be a highly inflationary economic environment during these periods. During the year ended October 31, 2001, we sold our investment in Bancomer and recognized translation losses of $99 in non-interest income under Canadian GAAP. Under United States GAAP, we recognized translation losses of $18, net of the $81 previously recognized in net income in 1999, 1998 and 1997.
(vii) Under United States GAAP, the costs associated with our proposed merger with Royal Bank were required to be reported in net income as incurred. Under Canadian GAAP, we treated these expenses as a reduction in retained earnings.

(6) In addition to the tax impact of differences outlined above, under United States GAAP, tax rate changes do not impact the measurement of our future income tax balances until they are passed into law. Under Canadian GAAP, tax rate changes are reflected in the measurement of our future income tax balances when they are substantively enacted.

(7) Includes cumulative adjustment to shareholders' equity arising from current and prior years' GAAP differences.

Future Changes in United States Accounting Principles
We will adopt a new accounting standard on goodwill and other intangible assets on November 1, 2001, at the same time that we adopt the equivalent new Canadian accounting standard. The requirements of both standards are the same as described in Note 8.

Note 25: Subsequent Event

On November 28, 2001, we announced the acquisition of CSFB*direct*, Inc., a subsidiary of Credit Suisse First Boston, for $830 (US$520). The transaction will be funded by non-common Tier 1 capital. The acquisition is expected to close in February 2002 and is subject to regulatory approval.

Statement of Management's Responsibility for Financial Information

The Bank's management is responsible for presentation and preparation of the annual consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Securities and Exchange Commission in the United States, as applicable. The financial statements also comply with the provisions of the Bank Act and related regulations, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 44-101 of the Canadian Securities Administrators as well as Item 303 of Regulation S-K of the Securities Exchange Act, and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and internal audit including organizational and procedural controls and internal accounting controls. Our system of internal control includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements. In order to provide their opinion on our consolidated financial statements, the Shareholders' Auditors review our system of internal control and conduct their work to the extent that they consider appropriate.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, including the MD&A, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit and Conduct Review Committees, comprised of non-Bank directors, and its Risk Review Committee.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters.

F. Anthony Comper
Chairman and
Chief Executive Officer

Karen Maidment
Executive Vice-President
and Chief Financial Officer

Canada
November 28, 2001

Shareholders' Auditors' Report

To the Shareholders of Bank of Montreal

We have audited the consolidated balance sheets of Bank of Montreal as at October 31, 2001 and 2000 and the related consolidated statements of income, changes in shareholders' equity and cash flow for each of the years in the three-year period ended October 31, 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2001 and 2000 and the results of its operations and its cash flow for each of the years in the three-year period ended October 31, 2001 in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

PricewaterhouseCoopers LLP

KPMG LLP
Chartered Accountants

PricewaterhouseCoopers LLP
Chartered Accountants

Canada
November 28, 2001

Bank Owned Corporations

Corporations in which the Bank owns more than 50% of the issued and outstanding voting shares	Head office	Percent of voting shares owned by the Bank	Book value of common and preferred shares owned by the Bank (Cdn $ in millions)
Bank of Montreal Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100	–
Bank of Montreal Capital Corporation	Toronto, Canada	100	86
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100	85
BMO Nesbitt Burns Limited (U.K.)	London, England	100	
Bank of Montreal Finance Ltd.	Toronto, Canada	50.01	2
Bank of Montreal Global Capital Solutions Ltd.	Calgary, Canada	100	13
Bank of Montreal Holding Inc.	Calgary, Canada	100	5,102
Bank of Montreal Insurance (Barbados) Limited	Bridgetown, Barbados	100	
Bank of Montreal Securities Canada Limited	Toronto, Canada	100	
BMO Nesbitt Burns Corporation Limited and subsidiaries	Montreal, Canada	100	
BMO Investments Limited and subsidiaries	Hamilton, Bermuda	100	
Bank of Montreal Ireland plc	Dublin, Ireland	100	1,308
Bank of Montreal Mortgage Corporation	Calgary, Canada	100	1,647
Bankmont Financial Corp.	Wilmington, United States	100	5,228
BMO Financial, Inc.	Wilmington, United States	100	
BMO Global Capital Solutions, Inc. and subsidiary	Wilmington, United States	100	
BMO Managed Investments Corp.	Chicago, United States	100	
BMO Nesbitt Burns Corp.	Chicago, United States	100	
BMO Nesbitt Burns Equity Group (U.S.), Inc. and subsidiaries	Chicago, United States	100	
BMO Nesbitt Burns Financing, Inc.	Chicago, United States	100	
EFS (U.S.), Inc. and subsidiaries	Chicago, United States	100	
Harris AdvantEdge Investing, Inc.	Wilmington, United States	100	
Harris Bankcorp, Inc. and subsidiaries	Chicago, United States	100	
Harris InvestorLine, Inc.	Chicago, United States	100	
Harris Trust/Bank of Montreal	West Palm Beach, United States	100	
BMO Investments Inc.	Toronto, Canada	100	67
BMO InvestorLine Inc.	Toronto, Canada	100	58
BMO Ireland Finance Company	Dublin, Ireland	100	661
BMO Life Insurance	Toronto, Canada	100	15
BMO Nesbitt Burns Equity Partners Inc.	Toronto, Canada	100	89
BMO (N.S.) Holdings Co.	Halifax, Canada	100	1,209
BMO (U.S.) Finance, LLC	Wilmington, United States	100	
Cebra Inc.	Toronto, Canada	100	–
Guardian Group of Funds Ltd.	Toronto, Canada	100	188
Lakeshore Funding Company, LLC	Wilmington, United States	100	502
MyChoice Inc.	Toronto, Canada	80	–
The Trust Company of Bank of Montreal	Toronto, Canada	100	30
Xceed Mortgage Corporation	Toronto, Canada	100	2

The above is a list of all our directly held corporations, as well as their directly held corporations, and thereby includes all of our major operating companies. The book values of the corporations shown represent the total common and preferred equity value of our holdings.

We own 100% of the outstanding non-voting shares of subsidiaries except for Bank of Montreal Securities Canada Limited, of which we own 94.07% of the outstanding non-voting shares.

Corporate Governance

Corporate governance has long been a priority at the Bank of Montreal Group of Companies. Effective corporate governance benefits our employees, shareholders, communities – and our business.

Our Board of Directors is charged with responsibility for maintaining our high standards and encouraging the evolution of our corporate governance program. Directors have a duty to ensure that the Board operates in an effective and independent manner and that the Bank is accountable to all its stakeholders.

It is also the job of our Board of Directors to ensure that the Bank's standards of corporate governance are consistent with the objectives of the guidelines established by The Toronto Stock Exchange in 1995. In many instances, our standards exceed these guidelines.

Bank of Montreal has earned a reputation as a leader and an innovator in the realm of corporate governance. For three consecutive years, the Canadian Institute of Chartered Accountants and the *National Post* have honoured the Bank with the Award of Excellence for Leadership in Corporate Governance. The Bank was also awarded the 2001 National Award in Governance (Private Sector) sponsored by the Conference Board of Canada and Spencer Stuart.

We are proud of these achievements.

Responsible

The Board of Directors, either directly or through its committees, is responsible for the management or supervision of the management of the business and affairs of the Bank. Among its many specific duties, the Board selects, evaluates, sets the compensation for and, if necessary, replaces the CEO. It also approves strategic plans and objectives, provides advice and counsel to the CEO, oversees the ethical, legal and social conduct of the organization, and reviews the financial performance and condition of the Bank.

To ensure responsible stewardship, the Board:

- Sponsors an annual all-day strategy session, which enables directors to gain a fuller appreciation of planning priorities and provides them with the opportunity to give constructive feedback to management.
- Ensures that the Bank has a prudent and professional risk management framework.
- Ensures the integrity of the Bank's internal control and management information system.
- Oversees succession planning for senior management, including the CEO.
- Ensures fair treatment of shareholders, irrespective of the size of their individual holdings.

Independent and Effective

The Board of Directors is responsible for making sure that appropriate structures and procedures are in place so that it can function independently of management. To assure effectiveness, the Board monitors membership to ensure that it has the necessary breadth and diversity of experience and is of an appropriate size. The Board additionally oversees orientation and education programs for directors.

To ensure independence and effectiveness, the Board:

- Ensures that the vast majority of its members are "unrelated". For 2001, 14 of the 15 directors were "unrelated" pursuant to the relationship rules set forth in the Bank Act, which are more restrictive than the TSE guidelines. The Chairman and CEO is the only "related" director. The current 15-person membership of the Board is a very workable size for effective decision-making and committee work.
- Encourages effective governance practices and policies and is responsible for determining Board size, composition and membership as well as planning for succession of directors and Board committee structure and composition.
- Assesses any shareholder proposals for appropriateness for inclusion in the Proxy Circular and formulates responses to those proposals.

- Mandates the Chair of the Governance Committee to serve as the lead director and chair sessions of the Board, in the absence of management, during every Board meeting.
- Sponsors a comprehensive orientation program for new directors.
- Ensures that all Board committees are composed of outside directors, except the Executive Committee and Risk Review Committee, both of which include the Chairman and CEO as a member. Full details of the committee mandates are set out in the Proxy Circular.
- Authorizes individual directors to engage outside advisors at the expense of the Bank in appropriate circumstances. Further, under the direction of the committee chairs, Board committees may engage independent consultants as needed.
- Follows the Board Approval/Oversight Guidelines, which clearly distinguish those matters requiring Board approval from those within the purview of management, which are reported to the Board after the fact.

Accountable

The Board of Directors is responsible for having in place a process that ensures the effectiveness and accountability of the Board as a whole as well as the committees of the Board. The Board is also responsible for assessing the performance of individual directors and the adequacy and form of compensation paid to directors. Together with the CEO, the Board develops position descriptions for the Chairman and CEO as well as corporate objectives that the CEO is responsible for meeting.

To ensure accountability, the Board:

- Sponsors an annual corporate governance survey on Board effectiveness. The survey has taken place since 1991, with outside consultants compiling the results. The effectiveness of each Board committee is also assessed as part of this survey.
- Oversees an annual director peer feedback performance review.
- Approves annual corporate objectives for the Chairman and CEO. Each year, the Governance Committee assesses the performance of the Chairman and CEO in his role as Chairman, while the Human Resources and Management Compensation Committee assesses his performance as CEO.
- Benchmarks directors' compensation annually against the Bank's peer group in order to ensure that compensation reflects the responsibilities and risks involved in being a director. To further align directors' interests with those of shareholders, effective in fiscal 2002, a share ownership guideline has been adopted by the Board requiring that a director hold Bank common shares or deferred share units with a value of not less than six times his or her annual retainer and, until the guideline level is achieved, requiring that all compensation be taken in the form of either common shares or deferred share units.
- Abides by a set of policies, which include attendance requirements, mandatory retirement age and resignation (for acceptance or decline by the Board) upon a change in principal occupation.

The *Charter of Expectations for Directors,* coupled with the Approval/Oversight Guidelines, serves as the backbone of the governance program at Bank of Montreal. These provide both directors and management with a clear road map of each other's expectations and commitments to good governance. The result has been a continuous improvement in the quality and timeliness of information and decision-making as well as a Board of Directors that is much more well-informed, empowered and engaged.

The Peer Feedback Survey, one of the most significant innovations in the Bank's governance program, rates the performance of each director against the standard of performance required by the *Charter of Expectations for Directors*. The survey, the results of which are compiled by an outside consultant to ensure confidentiality, measures the contribution of each director on a wide variety of topics including strategic insight, financial literacy, business judgement, participation and communication. We believe we are the only major Canadian company requiring its directors to complete such a survey.

Further details of our corporate governance program are available in the Proxy Circular.

Directors and Officers

Directors

F. Anthony Comper
Chairman and
Chief Executive Officer

Stephen E. Bachand
Ponte Vedra Beach,
Florida, U.S.A.
Corporate Director

David R. Beatty, O.B.E.
Toronto, Ont.
Chairman and
Chief Executive Officer
Beatinvest Limited

Robert Chevrier, F.C.A.
Montreal, Que.
President
Roche Management Co. Inc.

David A. Galloway
Toronto, Ont.
President and
Chief Executive Officer
Torstar Corporation

Eva Lee Kwok
Vancouver, B.C.
Chair and
Chief Executive Officer
Amara International
Investment Corp.

J. Blair MacAulay
Oakville, Ont.
Counsel
Fraser Milner Casgrain
Toronto

The Honourable
Frank McKenna, P.C., Q.C.
Cap Pelé, N.B.
Counsel
McInnes Cooper
Moncton

Bruce H. Mitchell
Toronto, Ont.
President and
Chief Executive Officer
Permian Industries Limited

Philip S. Orsino, F.C.A.
Caledon, Ont.
President and
Chief Executive Officer
Premdor Inc.
Mississauga

J. Robert S. Prichard, O.C., O.Ont.
Toronto, Ont.
President
Torstar Media Group and
Chief Operating Officer
Torstar Corporation

Jeremy H. Reitman
Montreal, Que.
President
Reitmans (Canada) Limited

Joseph L. Rotman, O.C., LL.D.
Toronto, Ont.
Chairman and
Chief Executive Officer
Roy-L Capital Corporation

Guylaine Saucier, C.M., F.C.A.
Montreal, Que.
Corporate Director

Nancy C. Southern
Calgary, Alta.
Co-Chairman and
Chief Executive Officer
ATCO Ltd. and
Canadian Utilities Limited

Honorary Directors

Charles F. Baird
Bethesda, Maryland, U.S.A.

Ralph M. Barford
Toronto, Ont.

Matthew W. Barrett, O.C., LL.D.
London, England

Peter J.G. Bentley, O.C., LL.D.
Vancouver, B.C.

Claire P. Bertrand
Montreal, Que.

Frederick S. Burbidge, O.C.
Frelighsburg, Que.

Pierre Côté, C.M.
Quebec City, Que.

C. William Daniel, O.C., LL.D.
Toronto, Ont.

Nathanael V. Davis
Osterville, Massachusetts, U.S.A.

Graham R. Dawson
Vancouver, B.C.

Louis A. Desrochers, C.M., c.r.
Edmonton, Alta.

John H. Devlin
Toronto, Ont.

A. John Ellis, O.C., LL.D., O.R.S.
Vancouver, B.C.

John F. Fraser, O.C., LL.D.
Winnipeg, Man.

Thomas M. Galt
Toronto, Ont.

J. Peter Gordon, O.C.
Mississauga, Ont.

John H. Hale
London, England

Richard M. Ivey, C.C., Q.C.
London, Ont.

The Honourable
Betty Kennedy, O.C., LL.D.
Milton, Ont.

David Kinnear
Toronto, Ont.

Ronald N. Mannix
Calgary, Alta.

Robert H. McKercher, Q.C.
Saskatoon, Sask.

Eric H. Molson
Montreal, Que.

The Honourable
Hartland de M. Molson, O.C., O.B.E.
Montreal, Que.

William D. Mulholland, LL.D.
Georgetown, Ont.

Jerry E.A. Nickerson
North Sydney, N.S.

Lucien G. Rolland, O.C.
Montreal, Que.

Mary Alice Stuart, C.M., O.Ont., LL.D.
Toronto, Ont.

Lorne C. Webster, C.M.
Montreal, Que.

Members of Management Board

F. Anthony Comper*
Chairman and
Chief Executive Officer

Yvan J.P. Bourdeau*
President and
Chief Operating Officer
BMO Nesbitt Burns
Investment Banking Group

Ronald H. Call*
Senior Vice-President
Corporate Planning
Office of Strategic Management

Barry M. Cooper
Chairman and
Chief Executive Officer
Jones Heward Investment
Counsel Inc. and
Head of Mutual Funds
Private Client Group

Sherry S. Cooper
Executive Vice-President and
Global Economic Strategist

Ellen M. Costello
Executive Managing Director
Securitization and Credit
Investment Management
Investment Banking Group

Lloyd F. Darlington*
President and
Chief Executive Officer
Emfisys and Head, E-Business

William A. Downe*
Deputy Chair
Bank of Montreal
Chief Executive Officer
BMO Nesbitt Burns
and Head of Investment
Banking Group

Angela Ferrante
Senior Vice-President
Corporate Communications

Barry K. Gilmour
Deputy Group Head and
Chief Operating Officer, Emfisys
Emfisys and E-Business

Maurice A.D. Hudon
President
Personal Banking Products
Personal & Commercial Client Group

David R. Hyma
Vice-Chair, BMO Nesbitt Burns
and Head of Capital Markets

Marnie J. Kinsley
Executive Vice-President
E-Business
Emfisys and E-Business

Louis F. Lanwermeyer
Executive Vice-President
Marketing and Product
Development, Harris Bank

Kathryn M. Lisson
Executive Vice-President
Consumer Lending and
President, Bank of Montreal
Mortgage Corporation
Personal & Commercial Client Group

Edward W. Lyman
Vice-Chair of the Board
Harris Bank

Neil R. Macmillan
Executive Managing Director
Head of Asset Portfolio
Management and
Senior Credit Officer
Investment Banking Group

Karen E. Maidment*
Executive Vice-President
and Chief Financial Officer

Michel G. Maila
Executive Vice-President and
Head of Risk Management Group

Dean G. Manjuris
Head of Full Service Brokerage
and President and
Managing Director
Private Client Division
Private Client Group

Robert L. McGlashan
Executive Vice-President
Commercial Banking, Personal
& Commercial Client Group

Alan G. McNally*
Vice-Chair, Bank of Montreal
and Chairman and
Chief Executive Officer
Harris Bank

L. Jacques Ménard
Chairman, BMO Nesbitt Burns
and President, Bank of Montreal
Group of Companies, Quebec
Investment Banking Group

Thomas V. Milroy
Vice-Chair, BMO Nesbitt Burns
and Global Head of Investment
& Corporate Banking
Investment Banking Group

Kathleen M. O'Neill
Executive Vice-President
BMO mbanx Direct and
Customer Value Management
Personal & Commercial Client Group

Timothy J. O'Neill
Executive Vice-President
and Chief Economist

Gilles G. Ouellette*
President and
Chief Executive Officer
Private Client Group
and Deputy Chair
BMO Nesbitt Burns

Rose M. Patten*
Executive Vice-President
Human Resources (and Head of
Office of Strategic Management)

Robert W. Pearce
President, Personal &
Commercial Banking Distribution
Personal & Commercial Client Group

Pamela J. Robertson
Executive Vice-President
Ontario Division
Personal & Commercial
Banking Distribution
Personal & Commercial Client Group

Ronald G. Rogers*
Vice-Chair
Personal & Commercial Client Group

Colin D. Smith
Executive Vice-President and
Senior Risk Officer
Personal & Commercial Client Group

Penelope F. Somerville
Executive Vice-President
and Treasurer

Frank J. Techar
Executive Vice-President
Small Business Banking
Personal & Commercial Client Group

Robert J. Tetley
Executive Vice-President
Processing Services
Emfisys and E-Business

William E. Thonn
Executive Vice-President
Harris Bank
Private Client Group

Eric C. Tripp
Vice-Chair, BMO Nesbitt Burns
and Head of Equity Division
Investment Banking Group

*Member of Management Board Executive Committee

Corporate Officers

Christopher B. Begy
Senior Vice-President and
Chief Auditor

Pierre O. Greffe
Senior Vice-President, Finance

Dereck M. Jones
Senior Vice-President,
General Counsel and
Chief Compliance Officer

Velma J. Jones
Vice-President and
Corporate Secretary

Janine M. Mulhall
Vice-President and Chief Accountant

Allowance for Credit Losses
An amount set aside and deemed adequate by management to absorb potential credit-related losses in the Bank's portfolio of loans, acceptances, guarantees, letters of credit, deposits with other banks and derivatives. Allowances for credit losses can be specific or general and are accounted for as deductions from the related assets in the financial statements. See also provision for credit losses.

Assets under Administration and under Management
Assets administered and/or managed by a financial institution that are beneficially owned by clients and are therefore not reported on the balance sheet of the financial institution.

Average Earning Assets
This amount represents the daily or monthly average balance over a one-year period of deposits with other banks, loans and securities.

Bankers' Acceptance (BA)
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the Bank and can be traded in the money market. The Bank earns a "stamping fee" for providing this guarantee.

Basis Point
One one-hundredth of a percentage point.

Capital at Risk (CaR)
CaR represents the aggregation of credit, market and operational risks into a single measure of risk, expressed in terms of capital. It facilitates the deployment of capital and its cost by transaction, client or line of business and therefore promotes maximization of shareholder value.

Cash Measures
Cash measures adjust net income to add back the amortization of goodwill and intangible assets. Cash measures may be computed for earnings, earnings per share and return on equity.

Compression
A reduction in net interest margins or spreads. Compression occurs due to competitive pressures or declining interest rates that don't permit asset and liability yields to adjust in tandem. The opposite effect is decompression.

Derivatives
A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity and commodity prices. See also individual definitions of forwards and futures, options and swaps.

Earnings at Risk
The impact on net income of a specified change in interest rates.

Earnings per Share (EPS)
Net income after deduction of preferred share dividends, divided by the average number of common shares outstanding. Diluted EPS adjusts for potential conversions of financial instruments into common shares, if the conversions would have lowered EPS.

Earnings Volatility
The adverse impact of changes in market variables on projected 12-month after-tax earnings, measured at a specified confidence level.

Economic Value at Risk
The impact of a specified change in interest rates on the value of the Bank's assets and liabilities.

Expense-to-Revenue Ratio
Non-interest expense divided by total revenues, expressed as a percentage. Expenses exclude amortization of goodwill.

Forwards and Futures
Contractual commitments to either buy or sell a specified currency or financial instrument on a specified future date at a specified price. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Guarantees and Standby Letters of Credit
Primarily represent a bank's obligation to make payments to third parties on behalf of its clients if its clients are unable to make the required payments or meet other contractual requirements.

Hedge
A risk management technique used to neutralize/manage interest rate or foreign currency exchange exposures arising from normal banking operations.

Impaired Loans
Loans are classified as impaired when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest.

Innovative Tier 1 Capital
The Office of the Superintendent of Financial Institutions Canada (OSFI) allows banks to issue instruments which qualify as "Innovative" Tier 1 capital. In order to qualify, these instruments have to be issued indirectly through a special purpose vehicle, they have to be permanent in nature and free of any fixed charges, the Bank has to absorb any losses and must account for them on an equity basis. They cannot comprise more than 15% of net Tier 1 capital and cannot exceed, in aggregate, 25% of innovative and perpetual preferred shares.

Market Value Exposure
The adverse impact of changes in market variables on the market value of the Bank's assets and liabilities, measured at a specified confidence level.

Mark-to-Market
Valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

Net Economic Profit (NEP)
Cash net income available to common shareholders less a charge for capital.

Net Interest Income
The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits and subordinated debt.

Net Interest Margin
Average net interest margin is the ratio of net interest income to average assets.

Notional Amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of a derivative contract.

Off-Balance Sheet Financial Instruments
An asset or liability that is not recorded on the balance sheet, but has the potential to produce positive or negative cash flows in the future. A variety of products offered to clients can be classified as off-balance sheet and they fall into two broad categories: (i) credit-related arrangements, which provide clients with liquidity protection, and (ii) derivatives.

Options
Contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

Over-the-Counter (OTC)
Trading that occurs outside of organized or regulated securities exchanges, carried out by broker-dealers who communicate with one another by telephone and quotation terminals. Prices on OTC instruments are negotiated between buying and selling brokers. Certain OTC instruments are traded in accordance with rules prescribed by self-regulating bodies.

Provision for Credit Losses
A charge to income which represents an expense deemed adequate by management given the composition of a bank's credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established. Specific provisions are established to reduce the book value of specific assets (primarily loans) to establish the amount expected to be recovered on the loans. A country risk provision is established for loans to and securities of countries identified by OSFI that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks. A general provision for loan losses is established in recognition of the fact that not all of the impairment in a loan portfolio can be specifically identified on a loan-by-loan basis. See also allowance for credit losses.

Regulatory Capital Ratios
The percentage of risk-weighted assets supported by capital, as defined by OSFI under the framework of risk-based capital standards developed by the Bank for International Settlements. These ratios are labelled Tier 1 and Tier 2. Tier 1 capital is considered to be more permanent, consisting of common shares together with any qualifying non-cumulative preferred shares less unamortized goodwill. Tier 2 capital consists of other preferred shares, subordinated debentures and general allowances to certain prescribed limits. Assets-to-capital multiple is adjusted assets divided by total capital.

Replacement Cost of Derivative Contracts
The cost of replacing a derivative contract that has a positive fair value at current market rates should a counterparty fail to settle.

Return on Common Shareholders' Equity (ROE)
This represents net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

Risk

Country Risk
Also known as sovereign risk, it is the risk that economic or political change in a country may impact repayments to creditor banks. This risk is considered higher for certain emerging market and lesser-developed countries specifically identified by OSFI.

Credit Risk
The potential for loss due to the failure of a counterparty or borrower to meet its financial obligations. Credit risk arises from traditional lending activity, from settling payments between financial institutions and from providing products that create replacement risk. Replacement risk arises when a counterparty's commitments to the Bank are determined by reference to the changing values of contractual commitments.

Foreign Exchange Risk
Possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment.

Interest Rate Risk
The potential impact on the Bank's earnings and economic value due to changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest margin earned on a fixed yield mortgage portfolio.

Liquidity Risk
The risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

Market Risk
The potential for loss arising from adverse changes in underlying market factors, including interest and foreign exchange rates, equity and commodity prices, spread and basis risk.

Operational Risk
The risk of loss resulting from a breakdown in, for example, communications, information or transactional processing or legal/compliance issues, due to technology/systems or procedural failures, human errors, disasters or criminal activity. The Bank's definition of operational risk consists of two main components, operations risk and business/event risks.

Replacement Risk
The risk that a financial contract will need to be replaced in the open market at a cost to the bank/enterprise.

Risk-Weighted Assets
Used in the calculation of risk-based capital ratios. The face amount of assets is discounted using predetermined risk-weighting factors in order to reflect a comparable risk per dollar among all types of assets. By adjusting notional values to balance sheet (or credit) equivalents and then applying appropriate risk-weighting factors, risks inherent in off-balance sheet instruments are recognized.

Securities Purchased under Resale Agreements
A type of transaction that involves the purchase of a security, normally a government bond, with the commitment by the buyer to resell the security to the original seller at a specified price on a specified date in the future.

Securities Sold under Repurchase Agreements
A type of transaction where a security is sold with the commitment by the seller to repurchase the security at a specified price and time.

Securities Sold but not yet Purchased
A transaction in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities. On the balance sheet, this category represents our obligation to deliver securities that we did not own at the time of sale.

Securitization
Securitizing assets involves selling financial assets to trusts or special purpose vehicles that are independent from the Bank; it can serve as an effective balance sheet management tool by reducing or eliminating the need to hold capital against risk-weighted assets or enabling capital to be reduced or redeployed to alternative revenue-generating purposes, and can serve as an effective liquidity management tool by diversifying funding sources.

Spread
The difference between two product rates, typically an asset and a liability.

Structural Market Risk
The market risk associated with interest rate mismatches arising primarily from the Bank's retail and commercial assets and liabilities, and related embedded options, and from foreign exchange translation risk arising from net income in foreign currencies.

Swaps
Contractual agreements between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency interest rate swaps, principal amounts and fixed and floating rate interest payments are exchanged in different currencies.

Taxable Equivalent Basis (teb) Adjustment
An addition to interest income to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income as appears in the financial statements. This results in a better reflection of the pre-tax economic yield of these assets and facilitates uniform measurement and comparison of net interest income.

Total Shareholder Return (TSR)
This amount is calculated as the annualized total return on an investment in our common shares made at the beginning of a designated period, usually one or five years. Total return on common shares includes the effect of a change in the share price and assumes that dividends received on common shares are reinvested in additional common shares.

Value at Risk (VaR)
VaR measures the adverse impact on the value of a portfolio, over a specified time period, of potential changes in market rates and prices. VaR is usually measured at a 99% confidence interval.

Volatility
A term which generally refers to a measure of price variance, usually the standard deviation of returns from a security or a portfolio of securities over a specified period of time.

Shareholder Information

Common Share Trading Information during Fiscal 2001

Primary Stock Exchanges	Ticker	Year-end Price Oct. 31, 2001	High	Low	Total Volume of Shares Traded
Toronto	BMO	**$ 33.86**	$ 44.40	$ 32.75	357.2 million
New York	BMO	**US$ 21.37**	US$ 29.15	US$ 20.75	9.3 million

Dividends per Share Declared during Fiscal Year

Issue/Class	Ticker	Shares Outstanding at Oct. 31, 2001	2001	2000	1999	1998	1997
Common (a)	BMO	489,084,527	**$ 1.12**	$ 1.00	$ 0.94	$ 0.88	$ 0.82
Preferred Class A							
Series 4 (b)		–	**$ –**	$ –	$ 1.87	$ 2.25	$ 2.25
Series 5 (c)		–	**$ –**	$ –	$ 522.26	$ 19,062.50	$ 19,062.50
Preferred Class B							
Series 1 (d)		–	**$ 0.57**	$ 2.25	$ 2.25	$ 2.25	$ 2.25
Series 2 (e)		–	**US$ 1.28**	US$ 1.69	US$ 1.69	US$ 1.69	US$ 1.69
Series 3	BMO F	16,000,000	**$ 1.39**	$ 1.39	$ 1.39	$ 1.39	$ 0.93
Series 4 (f)	BMO G	8,000,000	**$ 1.20**	$ 1.20	$ 1.20	$ 0.90	–
Series 5 (f)	BMO H	8,000,000	**$ 1.33**	$ 1.33	$ 1.33	$ 0.99	–
Series 6 (f)	BMO I	10,000,000	**$ 1.19**	$ 1.19	$ 1.19	$ 0.63	–

(a) Common share dividends have been restated to reflect the two-for-one stock distribution completed in March 2001.
(b) The Class A Preferred Shares Series 4 were redeemed on September 24, 1999.
(c) The Class A Preferred Shares Series 5 were redeemed on December 5, 1998.
(d) The Class B Preferred Shares Series 1 were redeemed on February 26, 2001.
(e) The Class B Preferred Shares Series 2 were redeemed on August 27, 2001.
(f) The Class B Preferred Shares were issued in February 1998 for Series 4 and 5, and in May 1998 for Series 6.

2002 Dividend Dates

Common and Preferred Shares Record Dates	Preferred Shares Payment Dates	Common Shares Payment Dates
February 1	February 25	February 27
May 3	May 27	May 30
August 2	August 26	August 29
November 1	November 25	November 28

The Bank Act prohibits a bank from paying or declaring a dividend if it is or would thereby be in contravention of capital adequacy regulations. Currently this limitation does not restrict the payment of dividends on the Bank's common or preferred shares.

Market for Securities of the Bank
The common shares of the Bank are listed on the Toronto and New York stock exchanges and the London Stock Exchange plc, London, England. The preferred shares of the Bank are listed on The Toronto Stock Exchange.

Shareholder Administration
Computershare Trust Company of Canada, with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver, serves as transfer agent and registrar for common and preferred shares. In addition, Computershare Investor Services PLC and Computershare Trust Company of New York serve as transfer agents and registrars for common shares in London, England and New York, respectively.

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call the Bank's Transfer Agent and Registrar at 1-800-332-0095 (Canada and the United States), or at (514) 982-7800 (international), or write to Computershare Trust Company of Canada, 1800 McGill College Ave., 6th Floor, Montreal, Quebec H3A 3K9, e-mail to caregistryinfo@computershare.com, or fax (514) 982-7664.

For all other shareholder inquiries, please write to Shareholder Services at the Corporate Secretary's Department, 21st Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1, e-mail to corp.secretary@bmo.com, call (416) 867-6785, or fax (416) 867-6793.

Shareholder Dividend Reinvestment and Share Purchase Plan
The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common and preferred shares to reinvest cash dividends in common shares of the Bank without the payment of any commissions or service charges.

Shareholders of the Bank may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Computershare Trust Company of Canada or Shareholder Services.

Direct Dividend Deposit
Shareholders may choose to have dividends deposited directly to an account in any financial institution in Canada that provides electronic funds transfer facilities.

Institutional Investors and Research Analysts
Institutional investors or research analysts who would like to obtain financial information should write to the Vice-President, Investor Relations, 18th Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1, e-mail to investor.relations@bmo.com, call (416) 867-6656, or fax (416) 867-3367. Alternatively, please visit our web site at www.bmo.com/investorrelations.

General Information
For general inquiries about company news and initiatives, or to obtain additional copies of the Annual Report, please contact the Corporate Communications Department, 302 Bay Street, 10th Floor, Toronto, Ontario M5X 1A1, or visit our web site at www.bmo.com. (On peut obtenir sur demande un exemplaire en français.)

Annual Meeting
The Annual Meeting of Shareholders will be held on Tuesday, February 26, 2002 at 9:30 a.m. (Eastern Standard Time) at the Fairmont The Queen Elizabeth, Montreal, Quebec, Canada.

Fees Paid to our Shareholders' Auditors
Fees amounting to $36.8 million were paid to our shareholders' auditors and their affiliates, of which $26.9 million related to non-audit services including legislative and regulatory compliance, tax, project management and general consulting.

Strategic Design: Ove Design & Communications Ltd. *www.ovedesign.com* Principal Photography: Sandy Nicholson Type: Moveable Inc. Separations: Graphic Specialties Limited Printing: Quebecor World MIL

www.bmo.com/annualreport2001

Corporate Information
This Bank of Montreal 2001 Annual Report is available for viewing/printing on our web site at bmo.com
For a printed copy, please contact:

Corporate Communications Department
302 Bay Street, 10th Floor
Toronto, Ontario M5X 1A1

(On peut obtenir sur demande un exemplaire en français.)

General Information
For general inquiries about company news and initiatives please contact our Corporate Communications Department.
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Shareholder Inquiries
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Computershare Trust Company of Canada
1800 McGill College Avenue, 6th Floor
Montreal, Quebec H3A 3K9

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